PRELIMINARY OFFICIAL STATEMENT DATED MAY 27, 2010

In the opinion of Squire, Sanders & Dempsey L.L.P., Special Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations the portion of the Lease Payments paid and denominated as interest under the Lease and received by the owners of the Series 2010B Certificates (the "Interest Portion") is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Interest Portion is exempt from Arizona state income tax. Special Counsel expresses no opinion as to the treatment for federal income tax purposes or Arizona state income tax purposes of amounts paid to the owners of the Series 2010B Certificates in the event of termination of the Lease by Non-Appropriation. The Interest Portion may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

NEW ISSUE – BOOK-ENTRY-ONLY **Ratings: See "Ratings" Herein**

$300,000,000*
Certificates of Participation, Series 2010B
Evidencing Proportionate Interests of the Owners Thereof in Lease Payments To Be Made By the STATE OF ARIZONA (acting by and through the Director of the Department of Administration) as Lessee for Certain Property Pursuant to a Lease-Purchase Agreement

Dated: Date of Initial Delivery **Due: October 1, as shown on inside cover**

The securities offered hereby consist of Certificates of Participation, Series 2010B (the "Series 2010B Certificates") in the Lease-Purchase Agreement, dated as of January 1, 2010, as amended by a First Amendment to Lease-Purchase Agreement, to be dated as of June 1, 2010 (as so amended and as subsequently amended, the "Lease"), between U.S. Bank National Association, as trustee (the "Trustee"), as lessor, and the State of Arizona, acting by and through the Director of the Department of Administration, as lessee (the "State"). Initially, the Series 2010B Certificates will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2010B Certificates. Purchases of beneficial interests in the Series 2010B Certificates will be made in book-entry-only form in denominations of $5,000 of principal due on specific maturity dates or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the Series 2010B Certificates.

Interest represented by the Series 2010B Certificates will accrue at the rates set forth in the schedule on the inside front cover page and be payable until maturity or prior redemption semiannually on April 1 and October 1 of each year, commencing October 1, 2010*, and principal with respect to the Series 2010B Certificates will be payable annually in accordance with the schedule set forth on the inside front cover page. So long as the Series 2010B Certificates are registered in the name of DTC, or its nominee, payments of the principal and interest with respect to the Series 2010B Certificates will be made directly by the Trustee to DTC which, in turn, is obligated to remit such payments to its participants for subsequent distribution to beneficial owners of the Series 2010B Certificates, as described herein.

The Series 2010B Certificates will be subject to optional, extraordinary and mandatory redemption prior to maturity as more fully described herein. See "THE SERIES 2010B CERTIFICATES -- Redemption Provisions" herein.

The Series 2010B Certificates will be sold (i) to finance the acquisition of certain property (the "Additional Property") in addition to that acquired with the proceeds from the sale of the hereinafter described Certificates of Participation, Series 2010A, by the Trustee and (ii) to pay the costs incurred in connection with the sale of the Series 2010B Certificates. See "SOURCES AND USES OF FUNDS" and "THE PROPERTY" herein.

The Series 2010B Certificates will be on a parity with the $709,090,000 outstanding principal amount of Certificates of Participation, Series 2010A, and any additional certificates hereafter executed and delivered (collectively, the "Certificates"), in each case pursuant to the Declaration of Trust (as defined herein) and will evidence the proportionate interests of the owners thereof in Lease Payments (as defined herein) to be made by the State, pursuant to the Lease. The State is required to make Lease Payments at times and in amounts sufficient to pay the principal and interest with respect to the Certificates. The State will deposit the proceeds from the sale of the Additional Property into the State's General Fund to pay appropriated expenditures of the State.

THE STATE'S OBLIGATION TO MAKE LEASE PAYMENTS AND ANY OTHER OBLIGATIONS OF THE STATE UNDER THE LEASE ARE SUBJECT TO AND DEPENDENT UPON ANNUAL APPROPRIATIONS BEING MADE BY THE STATE LEGISLATURE AND ANNUAL ALLOCATIONS OF SUCH APPROPRIATIONS BEING MADE BY THE DEPARTMENT OF ADMINISTRATION (THE "DEPARTMENT") FOR SUCH PURPOSE. The Department agrees to use its best efforts to budget, obtain, allocate and maintain sufficient appropriated monies to make Lease Payments. In the event no such appropriation and allocation is made, the Lease will terminate and there can be no assurance that the proceeds from the re-leasing or sale of the Property (as defined herein) will be sufficient to pay principal and interest with respect to the then Outstanding Certificates (as defined herein).

The scheduled payment of principal and interest with respect to the Series 2010B Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2010B Certificates by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.).

THE STATE'S OBLIGATION TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION. NEITHER THE FULL FAITH AND CREDIT NOR THE GENERAL TAXING POWER OF THE STATE IS PLEDGED TO MAKE PAYMENTS OF PRINCIPAL OR INTEREST WITH RESPECT TO THE CERTIFICATES. SUCH PAYMENTS WILL BE MADE SOLELY FROM AMOUNTS DERIVED UNDER THE TERMS OF THE LEASE, INCLUDING LEASE PAYMENTS, AND AMOUNTS FROM TIME TO TIME ON DEPOSIT UNDER THE TERMS OF THE DECLARATION OF TRUST.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

*The Series 2010B Certificates are offered when, as and if executed and delivered, subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., Special Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig LLP. It is expected that the Series 2010B Certificates will be available for delivery through the facilities of DTC on or about June 24, 2010.**

Morgan Stanley

Barclays Capital **Citi**
Stone & Youngberg **Wells Fargo Securities**

June__, 2010

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*Preliminary, subject to change.

$300,000,000*
Certificates of Participation, Series 2010B
Evidencing Proportionate Interests of the Owners Thereof in Lease Payments To Be Made
By the
STATE OF ARIZONA
(acting by and through the Director of the Department of Administration)
as Lessee for Certain Property
Pursuant to a Lease-Purchase Agreement

MATURITY SCHEDULE*

Maturity (October 1)	Principal Amount	Interest Rate	Yield
2012	$11,165,000		
2013	11,505,000		
2014	11,855,000		
2015	12,280,000		
2016	12,780,000		
2017	13,370,000		
2018	14,055,000		
2019	14,775,000		
2020	15,535,000		
2021	16,330,000		
2022	17,170,000		
2023	18,070,000		
2024	19,045,000		
2025	20,075,000		
2026	21,155,000		
2027	22,325,000		
2028	23,590,000		
2029	24,920,000		

*Preliminary, subject to change.

STATE OF ARIZONA

STATE OFFICIALS

Janice K. Brewer
Governor

Ken Bennett
Secretary of State

Terry Goddard
Attorney General

Dean Martin
Treasurer

David Raber
Interim Director, Department of Administration

PROFESSIONAL SERVICES

Financial Advisor..RBC Capital Markets Corporation

Special Counsel... Squire, Sanders & Dempsey L.L.P.

Trustee and Lessor .... U.S. Bank National Association

This Official Statement, which includes the cover page, the inside front cover page and the Appendices hereto, does not constitute an offering of any security other than the original offering of the Series 2010B Certificates identified on the cover hereof. No person has been authorized by the State of Arizona (the "State"), the State of Arizona Department of Administration (the "Department") or the Underwriters to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the State, the Department or the Underwriters.

The information contained in this Official Statement has been obtained from the State, the Department and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by the State or the Department. The presentation of such information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. This Official Statement contains projections and forecasts which are forward looking statements concerning facts which may or may not occur in the future. All such forward looking statements may not be realized and must be viewed with an abundance of caution. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State or the Department since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS, AND THE UNDERWRITERS MAY OVERALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE SERIES 2010B CERTIFICATES AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2010B Certificates will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the accuracy of this Official Statement. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the Series 2010B Certificates or the advisability of investing in the Series 2010B Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "CERTIFICATE INSURANCE" and APPENDIX G – "Specimen Municipal Bond Insurance Policy."

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STATE OF ARIZONA
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INTRODUCTION

This Official Statement, including the cover page, the inside front cover page and the Appendices hereto (the "Official Statement"), is provided to furnish information with respect to the execution and delivery of the captioned Certificates of Participation, Series 2010B (the "Series 2010B Certificates"), in the aggregate principal amount of $300,000,000.* The Series 2010B Certificates will be on a parity with the $709,090,000 outstanding principal amount of Certificates of Participation, Series 2010A (the "Series 2010A Certificates") and any additional certificates hereafter executed and delivered (the Series 2010B Certificates, the Series 2010A Certificates and such additional certificates are herein referred to as the "Certificates"), in each case pursuant to the hereafter-described Declaration of Trust. The Certificates will evidence proportionate interests of the owners thereof in lease payments ("Lease Payments") to be made by the State of Arizona (the "State"), for certain property pursuant to a Lease-Purchase Agreement, dated as of January 1, 2010 (the "Original Lease"), to be amended by a First Amendment to Lease-Purchase Agreement, dated as of June 1, 2010 (the "Lease Amendment" and, with the Original Lease as so amended and as subsequently amended, the "Lease"), between the State, acting by and through the Director (the "Director") of the Department of Administration (the "Department"), as lessee, and U.S. Bank National Association, as trustee (the "Trustee") and lessor.

Certain capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given to such terms in APPENDIX C under the heading "SUMMARY OF LEGAL DOCUMENTS -- DEFINITIONS."

The Series 2010B Certificates will be executed and delivered pursuant to a Declaration of Irrevocable Trust, dated as of January 1, 2010 (the "Original Declaration of Trust"), to be supplemented by a First Supplement to Declaration of Irrevocable Trust, dated as of June 1, 2010 (the "First Supplement" and the Original Declaration of Trust as so supplemented and as subsequently supplemented, the "Declaration of Trust"), executed by the Trustee, which declares an irrevocable trust for the benefit of the Registered Owners of the Certificates, including the Series 2010B Certificates. The proceeds received from the sale of the Series 2010B Certificates will be used (i) to finance the acquisition of certain property of the State (the "Additional Property") in addition to that acquired with the proceeds of the sale of the Series 2010A Certificates by the Trustee and (ii) to pay the costs incurred in connection with the sale of the Series 2010B Certificates. See "THE PROPERTY" and "SOURCES AND USES OF FUNDS" herein.

In connection with the sale and execution and delivery of the Series 2010B Certificates, the State will sell the Additional Property to the Trustee. Thereafter, the Trustee will lease back the Property, including the Additional Property, to the State pursuant to the Lease. The Trustee will hold title to the Property and its interest in the Lease, as trustee, solely for the benefit of the Registered Owners of the Certificates. The State will deposit the proceeds from the sale of the Additional Property into the State's General Fund to pay appropriated expenditures of the State. See APPENDIX A for a description of the State's General Fund.

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* Preliminary, subject to change.

Purchasers will not receive certificates representing ownership interests in the Series 2010B Certificates. Unless and until such system is discontinued, the Series 2010B Certificates will be held in book-entry form by The Depository Trust Company, a registered securities depository ("DTC"), and beneficial interests in the Series 2010B Certificates may be purchased and sold, and payments of principal and interest with respect to the Series 2010B Certificates will be made through participants in the DTC system. While they are held in book-entry form by DTC, the Series 2010B Certificates will be in the denomination of one Series 2010B Certificate for each maturity. If the DTC book-entry system is discontinued, the Series 2010B Certificates will be in denominations of $5,000 of principal due on specific maturity dates or any integral multiple thereof. See APPENDIX F – "BOOK-ENTRY-ONLY SYSTEM" herein.

The State's obligation to make Lease Payments and any other obligations of the State under the Lease are subject to and dependent upon annual appropriations being made by the State Legislature and annual allocations of such appropriations being made by the Department to make Lease Payments. The Department agrees in the Lease to use its best efforts to budget, obtain, allocate, allot and maintain sufficient appropriated monies to make Lease Payments.

If the State does not make an appropriation or the Department does not make an allocation of monies sufficient to pay Lease Payments in any Fiscal Period, the Lease will terminate and the State will be required to vacate, if applicable, and return possession of the Property to the Trustee, all in accordance with and subject to the provisions of the Lease and the Declaration of Trust. See "SECURITY FOR THE CERTIFICATES -- Non-Appropriation; Termination of Lease" herein.

THE SERIES 2010B CERTIFICATES

General Provisions

The Series 2010B Certificates are dated the date of initial delivery and will mature on the dates and in the amounts as shown on the inside front cover page hereof. Each Series 2010B Certificate represents an undivided proportionate interest in the portion of Lease Payments paid by the State and denominated as principal under the Lease (the "Principal Portion"), due and payable with respect to the maturity date of such Series 2010B Certificate, and in the portion of the Lease Payments paid by the State and denominated as interest under the Lease (the "Interest Portion"), due and payable semiannually on April 1 and October 1 of each year (each an "Interest Payment Date"), commencing October 1, 2010*, to and including maturity or prior redemption at the rates set forth on the inside front cover page hereof. Interest will be computed on the basis of a year comprised of 360 days consisting of 12 months of 30 days each.

So long as DTC, or its nominee, Cede & Co., is registered Owner of all of the Series 2010B Certificates, all payments on the Series 2010B Certificates will be made directly to DTC and references herein to the Registered Owners of the Series 2010B Certificates (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the owners of book-entry interests in the Series 2010B Certificates as described in APPENDIX F (the "Beneficial Owners"). When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. If the Trustee fails to make payment or provisions for payment of the Interest Portion on the applicable Interest Payment Date, such Interest Portion shall cease to be payable to the Registered Owner as of the 15^{th} day of the calendar month next preceding the applicable Interest Payment Date (each, a "record date") and when monies become available for payment of such Interest Portion, upon proper notice, the Trustee shall establish a special record date for the payment of such Interest Portion pursuant to the Declaration of Trust.

Redemption Provisions*

Optional Redemption. The Series 2010B Certificates maturing on or after October 1, 2020 are subject to optional redemption prior to maturity, at the direction of the Department, on any date on or after March 1, 2020 in whole or in part, at a redemption price of the principal amount represented thereby plus accrued interest to the redemption date, without premium.

Extraordinary Redemption. The Series 2010B Certificates are subject to redemption prior to maturity in whole at any time or in part on any Interest Payment Date from the net proceeds of insurance or condemnation awards, at a redemption price of the principal amount represented thereby plus accrued interest to the redemption date, without premium.

Mandatory Redemption from Mandatory Prepayment Amounts. The Series 2010B Certificates maturing on or after October 1, 2017 are subject to mandatory redemption and shall be redeemed prior to maturity from the Mandatory Prepayment Amounts, if any, calculated in accordance with the Lease, at the direction of the Department, on any date on or after October 1, 2016 in whole or in part, at the "Adjusted Redemption Value" plus a premium equal to the percentages of the Adjusted Redemption Value for the dates indicated in the table below, plus accrued interest to the redemption date:

Redemption Dates	Premium
October 1, 2016 through and including September 30, 2017	1.5%
October 1, 2017 through and including September 30, 2018	1.0
October 1, 2018 through and including September 30, 2019	0.5
October 1, 2019 and thereafter	0.0

The Adjusted Redemption Value is equal to:

(a) For the Series 2010B Certificates sold with original issue premium, the principal represented thereby plus the unamortized portion of any original issue premium paid on such Series 2010B Certificates; and

(b) For the Series 2010B Certificates sold at par or with original issue discount, the principal represented thereby.

The Adjusted Redemption Value as of each Interest Payment Date is set forth in APPENDIX H - "SCHEDULE OF ADJUSTED REDEMPTION VALUE CALCULATED TO MANDATORY REDEMPTION DATE." If such date of calculation for a mandatory redemption is not an Interest Payment Date, an amount will be calculated by straight line interpolation of the Adjusted Redemption Value as of the immediately preceding Interest Payment Date and the Adjusted Redemption Value as of the next Interest Payment Date.

On or before December 1 of each year, the Department shall calculate the Mandatory Prepayment Amount, if any, for the prior fiscal year. The Mandatory Prepayment Amount is generally the excess, if any, of (i) the revenues available to the State for General Fund appropriations in such fiscal year over (ii) the amount of General Fund expenditures in such fiscal year and a working capital reserve as permitted under federal tax law. See "APPENDIX C - SUMMARY OF LEGAL DOCUMENTS -- THE LEASE -- Mandatory Prepayment for Tax-Exemption." The Series 2010B Certificates to be redeemed shall be selected from all maturities on a pro rata basis or by selecting longer maturities than would result from a pro rata selection.

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* Preliminary, subject to change.

Prior to the mandatory redemption of any Series 2010B Certificates from the Mandatory Prepayment Amount, the Director has covenanted to prepay and redeem all outstanding Series 2010A Certificates.

Notice of Redemption

When redemption of Series 2010B Certificates is required or permitted pursuant to the Declaration of Trust, the Trustee will give notice of the redemption of such Series 2010B Certificates, which notice will specify: (a) by designation, letters, numbers or other distinguishing marks, the Series 2010B Certificates or portions thereof to be redeemed, (b) the redemption price to be paid, (c) the date of redemption, and (d) the place or places where the amounts due upon redemption will be payable. Unless money sufficient to pay the redemption price of the Series 2010B Certificates to be redeemed is received by the Trustee before giving of such redemption notice, the notice must state that the redemption is conditional upon the receipt of such money by the Trustee by 2:00 p.m. Eastern Time on the date fixed for redemption.

Notice of such redemption will be given by first class mail, postage prepaid, to the Certificate Insurer (as defined below) and the Registered Owner of each Series 2010B Certificate subject to redemption, initially Cede & Co. as nominee for DTC, at its address appearing on the registration records of the Trustee, at least 30 days but not more than 60 days prior to the redemption date, provided that no failure to receive notice by mail and no defect in any notice so mailed will affect the validity of the proceedings for the redemption of Series 2010B Certificates as to which proper notice was given. Any failure on the part of DTC or on the part of a Direct Participant or Indirect Participant (each as defined in APPENDIX F) in the DTC book-entry-only system to notify the Beneficial Owner of the Series 2010B Certificate so affected shall not affect the validity of the redemption of such Series 2010B Certificate.

Notice having been given in the manner provided above, the Series 2010B Certificates or portions thereof called for redemption will become due and payable on the redemption date and if monies sufficient to redeem all the Series 2010B Certificates or the portions thereof called for redemption are held by the Trustee or any paying agent on the redemption date, the Series 2010B Certificates or portions thereof called for redemption will cease to be entitled to receive interest with respect thereto and will no longer be considered Outstanding under the Declaration of Trust.

SOURCES OF PAYMENT FOR THE CERTIFICATES

The Certificates, including the Series 2010B Certificates, are payable from "Revenues" received under the Declaration of Trust, which consist of (a) Lease Payments, except for any Additional Rent portion of the Lease Payments representing amounts due to indemnify the Trustee and the Certificate Insurer; (b) all other monies, except payments under the Policy (as defined herein) with the Certificate Insurer, received or to be received by the Trustee pursuant to the Lease, including without limitation, all monies and investments in the Certificate Fund, and all other rentals, revenues and other income, charges and monies realized from the lease, sale or other disposition of the Property, except for any money in, or required to be deposited in, the Rebate Fund; (c) all proceeds received by the Trustee under any liability or casualty insurance policies or upon condemnation; (d) any monies and investments in the Proceeds Fund, to the extent provided in the Declaration of Trust; and (e) all income and profit from the investment of the foregoing monies, except for any investment income that is required to be rebated to the United States of America in order to continue the exclusion from gross income for federal income tax purposes of the Interest Portion. Additionally, the scheduled payment of principal and interest with respect to the Series 2010B Certificates when due, will be guaranteed under an insurance policy (the "Policy" or the "Certificate Insurance Policy") to be issued concurrently with the delivery of the Series 2010B Certificates by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM" or the "Certificate Insurer"). See "CERTIFICATE INSURANCE" herein.

The Certificates are secured without preference, priority or distinction as to lien or otherwise because of series, designation, number, date of authorization, sale, execution or delivery or maturity or otherwise, so that each Certificate and all Certificates will have the same right, lien and privilege and will be secured equally and ratably under the Declaration of Trust.

The Lease establishes Base Rent payments (See "SCHEDULE OF BASE RENT PAYMENTS") payable on the 20th day of the month preceding each Interest Payment Date in amounts equal to the Principal Portions and the Interest Portions evidenced by the Certificates payable on such Interest Payment Date. The Declaration of Trust provides that such amounts be deposited in the Certificate Fund and applied to make payments due with respect to the Certificates on the next succeeding Interest Payment Date. The Lease provides that the State's obligation to make Lease Payments (which includes the Base Rent payments) is absolute and unconditional, subject to and dependent upon annual appropriations being made by the State Legislature and annual allocations of such appropriations being made by the Department to make Lease Payments. The Department agrees to use its best efforts to budget, obtain, allocate and maintain sufficient appropriated monies to make Lease Payments, but appropriating State monies is a legislative act and is beyond the control of the Department. During the Lease Term, each Lease Payment is payable without any right of set-off or counterclaim regardless of any contingencies and whether or not the State possesses or uses the Property. See "SECURITY FOR THE CERTIFICATES -- Non-Appropriation; Termination of Lease" herein and APPENDIX A – "STATE OF ARIZONA – THE STATE BUDGET AND APPROPRIATIONS PROCESS." The State's obligation to make Lease Payments will continue until all Lease Payments and all other amounts due under the Lease have been paid, unless sooner terminated in accordance with the provisions of the Lease.

Lease Payments evidenced by the Certificates cannot be accelerated under the Lease or the Declaration of Trust.

The State's obligation to make Lease Payments does not constitute a debt or liability of the State or any political subdivision within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the State or any political subdivision is pledged to make payments of the principal or interest evidenced by the Certificates. Payments with respect to the Certificates will be made solely from amounts derived under the terms of the Lease, including Lease Payments, and amounts from time to time on deposit under the terms of the Declaration of Trust.

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The schedule below indicates the semi-annual amount of Base Rent payments due pursuant to the Lease.

SCHEDULE OF BASE RENT PAYMENTS*

		Series 2010B Certificates		
Payment Date	Lease Payments on Series 2010A Certificates	Principal Portion*	Interest Portion*(1)	Total Lease Payments on the Certificates* (2)
September 20, 2010	$24,054,154		$3,936,297	$27,990,451
March 20, 2011	17,672,440		7,304,469	24,976,909
September 20, 2011	17,672,440		7,304,469	24,976,909
March 20, 2012	17,672,440		7,304,469	24,976,909
September 20, 2012	42,902,440	$11,165,000	7,304,469	61,371,909
March 20, 2013	17,194,990		7,136,994	24,331,984
September 20, 2013	43,509,990	11,505,000	7,136,994	62,151,984
March 20, 2014	16,587,646		6,964,419	23,552,065
September 20, 2014	44,187,646	11,855,000	6,964,419	63,007,065
March 20, 2015	15,910,946		6,786,594	22,697,540
September 20, 2015	44,855,946	12,280,000	6,786,594	63,922,540
March 20, 2016	15,238,271		6,540,994	21,779,265
September 20, 2016	45,608,271	12,780,000	6,540,994	64,929,265
March 20, 2017	14,487,321		6,285,394	20,772,715
September 20, 2017	46,397,321	13,370,000	6,285,394	66,052,715
March 20, 2018	13,696,259		5,951,144	19,647,403
September 20, 2018	47,201,259	14,055,000	5,951,144	67,207,403
March 20, 2019	12,895,934		5,599,769	18,495,703
September 20, 2019	48,005,934	14,775,000	5,599,769	68,380,703
March 20, 2020	12,087,739		5,230,394	17,318,133
September 20, 2020	48,947,739	15,535,000	5,230,394	69,713,133
March 20, 2021	11,147,975		4,842,019	15,989,994
September 20, 2021	49,967,975	16,330,000	4,842,019	71,139,994
March 20, 2022	10,128,950		4,433,769	14,562,719
September 20, 2022	51,038,950	17,170,000	4,433,769	72,642,719
March 20, 2023	9,055,063		4,004,519	13,059,581
September 20, 2023	52,085,063	18,070,000	4,004,519	74,159,581
March 20, 2024	8,010,800		3,530,181	11,540,981
September 20, 2024	53,270,800	19,045,000	3,530,181	75,845,981
March 20, 2025	6,822,725		3,030,250	9,852,975
September 20, 2025	54,527,725	20,075,000	3,030,250	77,632,975
March 20, 2026	5,570,469		2,503,281	8,073,750
September 20, 2026	55,845,469	21,155,000	2,503,281	79,503,750
March 20, 2027	4,250,750		1,947,963	6,198,713
September 20, 2027	57,165,750	22,325,000	1,947,963	81,438,713
March 20, 2028	2,927,875		1,334,025	4,261,900
September 20, 2028	58,627,875	23,590,000	1,334,025	83,551,900
March 20, 2029	1,465,750		685,300	2,151,050
September 20, 2029	60,095,750	24,920,000	685,300	85,701,050

*Preliminary, subject to change.

(1) Interest on the Series 2010B Certificates is estimated at an average annual rate of 5.00%.

(2) Does not reflect the Mandatory Prepayment Amounts, if any, that may occur as required by the Lease. See "THE SERIES 2010B CERTIFICATES – Redemption Provisions – *Mandatory Redemption from Mandatory Prepayment Amounts*" and APPENDIX C - "SUMMARY OF LEGAL DOCUMENTS - THE LEASE - Mandatory Prepayment for Tax-Exemption."

SECURITY FOR THE CERTIFICATES

General

Each Certificate, including the Series 2010B Certificates, evidences a proportionate interest in Lease Payments to be paid by the State to the Trustee under the Lease. See "SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.

The State's obligations to make Lease Payments and any other obligations of the State under the Lease are subject to and dependent upon annual appropriations being made by the State Legislature and annual allocations of such appropriations being made by the Department to make Lease Payments. The Department agrees in the Lease to use its best efforts to budget, obtain, allocate and maintain sufficient appropriated monies to make Lease Payments. For the purposes of the Lease, the Department will be deemed to have made the necessary allocation for any Fiscal Period if, not later than September 20th of such Fiscal Period, (a) the State Legislature makes a specific line-item appropriation for the Lease for such Fiscal Period or (b) the State Legislature makes a lump-sum appropriation to the Department for such Fiscal Period in an amount at least sufficient to pay the Lease Payments becoming payable in such Fiscal Period. If the State Legislature does not make an appropriation or the Department does not make an allocation of money sufficient to pay Lease Payments in any succeeding Fiscal Period with respect to the Property, the Lease will terminate on such September 20th, and the State will be required to surrender possession of the Property to the Trustee on the next Interest Payment Date, all in accordance with and subject to the terms of the Lease and the Declaration of Trust. In that event, the Trustee will be entitled to exercise all available remedies, which could include leasing the Property or sale of the Trustee's interest in the Property. See Non-Appropriation; Termination of Lease" below.

All monies and investments held by the Trustee under the Declaration of Trust (except monies and investments in the Rebate Fund) are irrevocably held in trust for the benefit of the Registered Owners and the State, as their interests appear, and for the purposes specified in the Declaration of Trust, and such monies, and any income or gain thereon, will be expended only as provided in the Declaration of Trust and will not be subject to levy or attachment by lien by or for the benefit of any creditor of the Trustee, the State or any Registered Owner.

The Certificates are secured without preference, priority or distinction as to lien or otherwise because of series, designation, number, date of authorization, sale, execution or delivery or maturity or otherwise, so that each Certificate and all Certificates will have the same right, lien and privilege and will be secured equally and ratably under the Declaration of Trust.

Under the terms of the Lease, the Department is obligated to pay on each Lease Payment Date an amount equal to the Lease Payment then due. The Lease Payment due on each Lease Payment Date equals the aggregate amount of the Principal Portion and the Interest Portion evidenced by the Certificates, including the Series 2010B Ceritificates, payable on the ensuing Interest Payment Date, plus any Mandatory Prepayment Amount and plus any Additional Rent due on such date. The Lease Term commenced on January 26, 2010 with the issuance of the Series 2010A Certificates and will end on the date the last Lease Payment and all other amounts due under the Lease have been paid, unless sooner terminated in accordance with the provisions of the Lease.

Non-Appropriation; Termination of Lease

The Lease provides that the obligation of the Department to make Lease Payments is subject to annual appropriation by the State Legislature and annual allocation by the Department. Such obligation is a current expense of the State, payable exclusively from appropriated monies, and is not a general obligation or indebtedness of the State. If the State Legislature fails to appropriate sufficient monies or the Department fails to allocate sufficient monies to make Lease Payments, then the State and the Department are relieved of any subsequent obligation under the Lease. The Department agrees in the Lease to use its best efforts to budget, obtain, allocate and maintain sufficient appropriated monies to make Lease Payments, but the Trustee, as lessor under the Lease, acknowledges that appropriating State monies is a legislative act beyond the control of the Department.

If, on the first business day of a Fiscal Period, sufficient funds have not been appropriated and allocated for the purpose of paying all Lease Payments scheduled to be paid during that ensuing Fiscal Period, the State will immediately deliver written notice thereof to the Trustee and the Certificate Insurer. If on September 20th of any Fiscal Period the Legislature has failed to make an Appropriation or the Department has failed to allocate or allot monies for the Lease Payments due in such Fiscal Period, the Lease shall terminate on such September 20th and the State and the Department will be relieved of any subsequent obligation under this Lease with respect thereto, other than to surrender to the Lessor possession of the Property on the next Interest Payment Date and to pay any accrued and unpaid obligations for which monies are lawfully available.

In the event the Lease is terminated due to Non-Appropriation, the State is under no obligation to make any future Lease Payments with respect thereto. Under such circumstances, the Trustee (with the consent of the Certificate Insurer) will have all legal and equitable rights and remedies to take possession of the Property, subject to the direction of remedies by the Certificate Insurer (and appropriate indemnification of the Trustee), and the State agrees to peaceably surrender possession of the Property to the Trustee not later than October 1st following such termination.

THERE CAN BE NO ASSURANCE THAT IN THE EVENT OF NON-APPROPRIATION OF LEASE PAYMENTS AND TERMINATION OF THE LEASE THE PROCEEDS FROM THE LEASING OR SALE OF THE PROPERTY BY THE TRUSTEE WILL BE SUFFICIENT TO PAY PRINCIPAL AND INTEREST WITH RESPECT TO THE THEN OUTSTANDING CERTIFICATES.

Non-Appropriation; Effect on Tax Status

Special Counsel expresses no opinion as to treatment for federal income tax purposes or Arizona state income tax purposes of amounts received by the owners of the Series 2010B Certificates following termination of the Lease by an event of Non-Appropriation.

Additional Certificates

So long as the Lease remains in effect, no Event of Default under the Declaration of Trust has occurred and is continuing, the replacement value of the Property, including any additional property, as determined by the Department is at least equal to the par amount of Outstanding Certificates and Additional Certificates, the State may direct the Trustee to execute and deliver Additional Certificates from time to time to provide funds to (1) pay the costs of refunding Outstanding Certificates, (2) to pay the costs of making any modifications or improvements to the Property as the State deems necessary or desirable, or (3) additional purposes authorized by subsequent legislation and not inconsistent with the Authorizing Law. The issuance and delivery of Additional Certificates is also subject to the consent of the Series 2010A Certificate Insurer.

Defeasance

The Series 2010B Certificates are subject to defeasance and may be paid or provided for with monies or specified investment securities provided by the State in connection with the State's exercise of its option to purchase the Property prior to the maturity of all or a portion of the Series 2010B Certificates. See APPENDIX C – "SUMMARY OF LEGAL DOCUMENTS – THE DECLARATION OF TRUST - Defeasance." See also "THE PROPERTY - Purchase Option" herein.

CERTIFICATE INSURANCE

Certificate Insurance Policy

Concurrently with the issuance of the Series 2010B Certificates, AGM will issue the Policy for the Series 2010B Certificates. The Policy guarantees the scheduled payment of principal of and interest on the Series 2010B Certificates when due as set forth in the form of the Policy included as APPENDIX G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA (“Dexia”). In connection with such acquisition, Holdings’ financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the “SEC”) on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM’s financial strength is rated “AAA” (negative outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (negative outlook) by Moody’s Investors Service, Inc. (“Moody’s”). On February 24, 2010, Fitch, Inc. (“Fitch”), at the request of AGL, withdrew its “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Recent Developments

<u>Ratings</u>

On May 17, 2010, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch’s comments.

On December 18, 2009, Moody’s issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody’s comments.

There can be no assurance as to any further ratings action that Moody’s or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

Capitalization of AGM

At March 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately $2,220,015,145 and its total net unearned premium reserve was approximately $2,228,912,193 in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and

(ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the Series 2010B Certificates shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "CERTIFICATE INSURANCE – Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Series 2010B Certificates or the advisability of investing in the Series 2010B Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "CERTIFICATE INSURANCE".

CERTIFICATE INSURANCE RISK FACTORS

In the event of default in the payment of principal or interest with respect to all or a portion of the Series 2010B Certificates when due, any Registered Owner of the Series 2010B Certificates will have a claim under the Policy for such payments. However, in the event of any required early payment of principal by reason of mandatory, extraordinary or optional redemption or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure the payment of any applicable redemption premium. The payment of principal and interest in connection with mandatory, extraordinary or optional redemption of the Series 2010B Certificates which is recovered from a Registered Owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Certificate Insurer at such time and in such amounts as would have been due absent such redemption unless the Certificate Insurer chooses to pay such amounts at an earlier date.

The Certificate Insurer may direct, and must consent to, any remedies that the Trustee exercises and the Certificate Insurer's consent may be required in connection with amendments to the Lease and the Declaration of Trust.

The obligations of the Certificate Insurer with respect to the Series 2010B Certificates will be general obligations of the Certificate Insurer, and in an event of default by the Certificate Insurer, the remedies available to the Trustee may be limited by applicable bankruptcy law or other similar laws related to insolvency. In the event the Certificate Insurer becomes obligated to make payments with respect to the Series 2010B Certificates, no assurance is given that such event will not adversely affect the market value of the Series 2010B Certificates or the marketability (liquidity) for the Series 2010B Certificates.

In the event the Certificate Insurer is unable to make payment of principal (including because of mandatory redemption) and interest as such payments become due under the Policy, the Series 2010B Certificates will be payable solely from the monies received by the Trustee pursuant to the Declaration of Trust.

The long-term ratings on the Series 2010B Certificates are dependent in part on the financial strength of the Certificate Insurer and its claims paying ability. The Certificate Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Certificate Insurer and of the ratings on the Series 2010B Certificates insured by the Certificate Insurer will not be subject to downgrade, and such event could adversely affect the market price or the marketability (liquidity) of the Series 2010B Certificates. See "RATINGS" herein.

None of the Department, the State, the Financial Advisor or the Underwriters has made any independent investigation of the claims paying ability of the Certificate Insurer and no assurance or representation regarding the financial strength or projected financial strength of any Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the State to pay principal and interest with respect to the Series 2010B Certificates and the claims paying ability of the Certificate Insurer, particularly over the life of the investment.

SOURCES AND USES OF FUNDS

Monies received from the sale and execution and delivery of the Series 2010B Certificates will be applied as follows:

SOURCE OF FUNDS:	
Principal Amount of the 2010B Certificates	
Net Original Issue Premium	
Total Sources	
USES OF FUNDS:	
Deposit to Proceeds Fund	
Costs of Issuance (Including Underwriters' Discount and the Policy Premium)	
Total Uses	

STATE'S USE OF PROCEEDS FROM SALE OF PROPERTY

$300,000,000* of the net proceeds of the Series 2010B Certificates will be immediately withdrawn from the Proceeds Fund and used by the Trustee to purchase the Additional Property from the State. Pursuant to the Authorizing Law, the State will deposit such funds in the State's General Fund to pay appropriated expenditures of the State. See APPENDIX A – "STATE OF ARIZONA – FISCAL YEAR 2009-10 AND 2010-11 BUDGETS – Initial 2010 Budget Act."

THE PROPERTY

General Description

The proceeds received by the Trustee from the sale of the Series 2010B Certificates, net of amounts being used to pay the premium for the Policy and amounts being used to pay costs of issuance of the Series 2010B Certificates, will be used by the Trustee to acquire the Additional Property (which together with the property acquired with the proceeds of the Series 2010A Certificates is referred to herein as the "Property").

The Property, including the Additional Property, consists of a number of individual Property Units as described below. Certain of the Property Units noted below were lease-purchased in connection with the sale and execution and delivery of the Series 2010A Certificates and are currently subject to the Original Lease. Certain of the Property Units of the Additional Property as noted below are currently encumbered by an existing Amended and Restated Lease Purchase Agreement, dated as of July 1, 2002 (the "Existing Lease Purchase Agreement"). The Existing Lease Purchase Agreement is scheduled to terminate on September 1, 2010, provided the State makes its final lease payment of $25,265,000 on or before August 15, 2010 and there is no event of default under the Existing Lease Purchase Agreement. An appropriation in an amount sufficient to make the final lease payment of the Existing Lease Purchase Agreement on August 15, 2010 was provided in the State's budget for fiscal year 2010-11, and no event of default is known to be existing at this time. The final lease payment is scheduled to be made by the State on or after July 1, 2010 and before August 15, 2010. **Failure of the State to make the final lease payment of the Existing Lease Purchase Agreement will result in the Trustee having a legal interest in the Property Units that are part of the Additional Property that is subject to the Existing Lease Purchase Agreement. The estimated replacement value of the Property Units subject to the Existing Lease Purchase Agreement is approximately $175 million.**

Except as noted above, no prior lien exists on any of the Property Units. No title insurance insuring the Trustee's ownership interest in the real property comprising any portion of the Property is being or was purchased in connection with the execution and delivery of the Certificates, including the Series 2010B Certificates. The Department has not obtained any recent independent appraisals of the Property or any Property Units. The Department has determined that the total estimated replacement value of the Property is $1,024.1* million, which includes an estimated replacement value for the Additional Property of $314.3* million. The Department annually determines the replacement value for the State's building system inventory using a formula based on an industry recognized construction cost index. The index value is applied to a structure's original cost and original year of construction to derive a current replacement value. The formula and approach used are consistently applied across all structures valued by the Department in the State's building system. The replacement value determined by the Department is the basis for which the Department's Risk Management division assesses insurance premiums for real property. For that purpose, replacement value is defined as the amount required to replace a damaged or destroyed structure with a structure of like kind and quality as of the date of loss.

The Property Units

The Property consists of the following Property Units:

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* Preliminary, subject to change.

The ***Arizona State Prison Complex (ASPC) Florence***, located in the central portion of the State in Florence, Arizona. ASPC Florence consists of four separate prison units referred to as the Central Unit, North Unit, South Unit and East Unit, and an administrative support area referred to as the Complex Administration. Only the Complex Administration, Central Unit, North Unit and South Unit are a part of the Property.

The Complex Administration includes a farm, administrative structures, storage buildings and other supporting structures. A portion of these facilities were constructed in 1908, with most of the primary structures constructed between 1956 and 1999. The Complex Administration totals 249,896 gross square feet and its replacement value is estimated by the Department to be $28.2 million.

The Central Unit is a maximum security prison with a stated operating capacity of 1,116. The unit currently houses 1,124 inmates and consists of dormitory units, administrative building, kitchen, maintenance building, an industry yard, and other supporting structures. Portions of the facility were constructed in 1908, with a majority of the facilities constructed in the 1960's, 1990's and early 2000's. The unit totals 323,140 gross square feet and its replacement value is estimated by the Department to be $71.9 million.

The North Unit is a minimum security prison with an operating capacity of 1,116. The unit currently houses 1,115 inmates and consists of dormitory units, administrative buildings, a kitchen, a maintenance building and other supporting structures. The buildings at the unit were constructed between the 1960's and 1990's. The unit totals 169,223 gross square feet and its replacement value is estimated by the Department to be $18.1 million.

The South Unit is a medium security prison with an operating capacity of 965. The unit currently houses 936 inmates and consists of dormitory units, housing units, a kitchen, administration headquarters facilities, a medical building and other supporting structures. Dates of construction for the various facilities in the unit range from the early 1930's to the early 2000's. The unit totals 264,806 gross square feet and its replacement value is estimated by the Department to be $45.6 million.

The cumulative replacement value for the Central, North, and South Units, including administrative units is estimated by the Department to be $163.8 million, with total gross square feet of the structures being 1,007,075.

The ***Arizona State Prison Complex (ASPC) Eyman***, located in the central portion of the State in Florence, Arizona. The ACPC Eyman complex consists of five separate units referred to as SMU I, Browning (SMU II), Rynning, Cook, and Meadows. Each unit is on an approximate 30-acre footprint located on land owned by the State. Only the Browning (SMU II) and the Meadows Units are a part of the Property.

The Browning (SMU II) Unit is a maximum security prison with an operating capacity of 888 inmates. It currently houses 828 inmates and consists of housing units, a kitchen, an administrative building, a maintenance building and other supporting structures. Construction of the unit occurred between 1994 and 1998. The unit totals 276,097 gross square feet and its replacement value is estimated by the Department to be $58.3 million.

The Meadows Unit is a medium security prison with a stated operating capacity of 1,126 inmates. It currently houses 1,133 inmates and consists of housing units, a kitchen, an administrative building and other supporting structures. Construction of the unit occurred between 1994 and 1998. The unit totals 175,337 gross square feet and its replacement value is estimated by the Department to be $23.9 million.

The ***Executive Office Tower***, located at the Capitol Mall Complex in Phoenix, Arizona. The facility is a nine-story office building totaling approximately 205,901 gross square feet that houses some of the State's most mission critical tenants, including the Office of the Governor, Secretary of State, State Treasurer, Governor's Office of Strategic Planning and Budgeting, Department of Commerce, School Facilities Board, State Mine Inspector, Capitol Mall Police headquarters, and a variety of other agencies, boards, and commissions. The building, constructed in 1974, has a cafeteria in its basement and secure under ground parking. The facility's replacement value is estimated by the Department to be $43.9 million.

The ***Arizona State Legislature office buildings***, located at the Capitol Mall Complex in Phoenix, Arizona. The Arizona State Legislature office buildings consist of two separate buildings for the Arizona State House of

Representatives and the Arizona State Senate. These buildings house Arizona's formal lawmaking function and consist of legislative office space and a variety of hearing rooms and other related spaces organized for deliberating issues of public concern.

Each of the structures was constructed in 1957 and is centrally located in the State Capitol Mall Complex, flanking the Capitol on its north and south. Each has approximately 80,160 gross square feet and the replacement value of each building is estimated by the Department to be $18.5 million, for a total replacement value of $37.0 million.

The ***Polly Rosenbaum State Archives Building***, located just southwest of the State's Capitol Mall Complex in Phoenix, Arizona. The building, constructed in 2009, is a 124,731 gross square foot state-of-the-art archival conservation and storage facility specially constructed to house state archives, artifacts and public records, which require special climate controls and protections from environmental and mechanical hazards. The building includes a treatment room (blast freezing/fumigation), a conservation lab (flume hood areas), cold photograph storage, staff work areas, an audio visual room, and public hearing rooms. The building's replacement value is estimated by the Department to be $29.5 million.

The ***Arizona Department of Revenue Building and Parking Structure***, located in the State's Governmental Mall near the State Capitol in Phoenix, Arizona. Constructed in 1988, this multi-level, contemporary style building includes nine stories above grade level and two fully finished basement levels. One of the basement levels houses a full kitchen and dining area that services the building and area office tenants. Totaling 201,806 gross square feet, the building is occupied by the Arizona Department of Revenue for its administrative office space and revenue collections operations. The building's replacement value is estimated by the Department to be $30.9 million.

The Department of Revenue Building is supported by a 169,000 gross square foot parking structure located adjacent to the building, containing approximately 69 spaces. The parking structure was constructed in 1988 and its replacement value is estimated by the Department to be $4.5 million.

The ***Department of Public Safety (DPS) Headquarters Complex***, located in Phoenix, Arizona. The Phoenix DPS headquarters complex includes 35 structures, including the primary Data Processing building constructed in 1957 and its east and west computer center improvements, each constructed in 1971. These structures chiefly house DPS' administrative functions, including its centralized information technology services that support DPS administrative, enforcement, and investigative functions, including the state-wide criminal justice information on-line network utilized by all criminal justice agencies in Arizona. A forensic science lab was constructed on the site in 1997, providing scientific and assessment and evaluation services to the Phoenix area. The complex also includes telecommunications buildings and a variety of mechanical, storage, and fueling facilities. The complex contains approximately 254,563 gross square feet of structures with a replacement value estimated by the Department of $53.3 million.

The ***Arizona State Hospital (ASH)***, located in Phoenix, Arizona. The ASH is the only long-term publicly funded hospital in Arizona providing specialized psychiatric services for severely mentally ill persons. The original "Insane Asylum of Arizona" first opened in January 1887. The ASH campus has 54 structures and includes a variety of functional historic buildings as well as more recently constructed facilities. A new civil hospital was constructed in 2002 and includes an adult civil behavioral health facility with a 200-bed capacity (expandable to 300 beds in the future) in the northwest quadrant of the campus, an adolescent behavioral health facility with a 16-bed capacity (expandable to 32 beds in the future) in the northwest quadrant of the campus, and the administrative building and support space of the Arizona Community Protection Treatment Center, including a complete secured fence perimeter enclosure. A new forensic hospital that is under construction on the ASH campus is excluded from the Property.

The ASH campus also includes three units currently occupied by the Arizona Department of Corrections. The units are the Alhambra Reception, Aspen Special Programs Unit and the Flamenco Unit. The Alhambra Reception Unit is a maximum security unit with a total operating capacity of 336 inmates. The Aspen Unit is a medium security unit with a total operating capacity of 150 inmates. The Flamenco Unit is a close custody unit separated into male and female units. The male operating capacity is 105 inmates and the female operating capacity is 20 inmates.

The ASH campus totals approximately 750,089 gross square feet and its cumulative replacement value, excluding the new forensic hospital described above, is estimated by the Department to be $179.8 million.

The ***Arizona Coliseum and Exposition Center,*** located in the central portion of Phoenix, Arizona. The Arizona Coliseum and Exposition Center campus consists of approximately 320 acres, contains a number of facilities and structures and is the location of the annual Arizona State Fair.

The most significant of the buildings is the Veterans Memorial Coliseum which hosts a variety of prominent events, including events for the Arizona State Fair, the Maricopa County Fair, the Arizona National Livestock Show, and the Maricopa County Home and Garden Show. It also functions as a training site and disaster recovery operations base for a variety of organizations, including the American Red Cross, Arizona Department of Emergency and Military Affairs, Federal Bureau of Investigations, and local police and fire jurisdictions. The Veterans Memorial Coliseum is approximately 319,103 gross square feet with a replacement value estimated by the Department to be $62.9 million. Other supporting structures include multiple exhibition buildings, multiple stages, cattle barn, horse barn, maintenance building, storage building and supporting structures.

The Exposition and State Fair is 100% self-supporting, receives no monies from the State's General Fund, and is estimated to infuse approximately $50 million annually into Arizona's economy.

The Exposition Center has 26 structures on site, with construction dates between 1917 and 2006, including Veterans Memorial Coliseum, with a cumulative gross square foot total of approximately 680,800 gross square feet and a cumulative replacement value estimated by the Department to be $84.9 million.

The Additional Property consists of the following Property Units:*

The ***Arizona State Prison Complex (ASPC) Tucson***, located in Tucson, Arizona. The ASPC Tucson is comprised of five separate units referred to as Cimarron, Catalina, Winchester, Manzanita, and Minors Units. Only the Winchester and Manzanita units are included in the Property.

The Winchester Unit is a medium security prison built in 1994 with an operating capacity of 864 inmates and currently houses 830. The replacement value is estimated by the Department to be $11.8 million.

The Manzanita Unit includes medium, close custody, and detention facilities with an operating capacity of 525 inmates. It currently houses 506 inmates. The unit was built in 1994 and the Department estimates its replacement value to be $7.9 million.

The ***Arizona Health Care Cost Containment System (AHCCCS) office buildings (two separate Property Units)*** are located in central Phoenix, Arizona. Each structure is a four-story office building located east of the Capitol Mall and directly across 7th Street from Chase Field, the home of the Arizona Diamondbacks. These office buildings house the administrative offices of AHCCCS, Arizona's Medicaid agency. AHCCCS provides a variety of health care programs to Arizona residents meeting specific eligibility criteria. The 701 and 801 East Jefferson buildings were built in 1985 and 1986. Each building is approximately 80,840 gross square feet. The 701 office building has a cafeteria on its first level floor. The cumulative replacement value for both structures is estimated by the Department to be $25.4 million. The adjacent parking garage is not included in the Property.

The ***Department of Public Safety (DPS) Tucson Headquarters Complex***, in Tucson, Arizona. The Department of Public Safety is a multi-faceted state-level law enforcement organization, working in close partnership with other agencies to protect the welfare of the public. The Tucson headquarters building and its supporting structures were constructed in 1967 and cumulatively total 49,097 gross square feet. The Department estimates that their replacement values total $7.4 million.

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* Preliminary, subject to change.

The ***Department of Public Safety (DPS) Southern Regional Forensic Laboratory*** in Tucson, Arizona. This state-of-the-art crime forensics lab was constructed in fiscal year 2008-2009. It houses DPS' Scientific Analysis Bureau that provides scientific and assessment and evaluation services, including DNA, serology, toxicology, controlled substances, firearms, trace evidence (explosives, arson, hair, fibers, paint, glass, etc.), latent fingerprints, breath alcohol, and crime scene photography. The building totals 41,431 gross square feet. The replacement value is estimated by the Department to be $17.7 million.

The ***Arizona Schools for the Deaf and the Blind*** in Tucson, Arizona. Arizona Schools for the Deaf and the Blind provides educational services to blind, deaf and hard-of-hearing students from pre-school through high school in the Tucson and surrounding Southern Arizona areas. The school campus consists of multiple educational facilities including classroom buildings, athletic complex, dormitories and other supporting structures. All buildings total 216,710 gross square feet. Its replacement value as estimated by the Department is $40.0 million.

The ***Warehouse Kitchen and Dining Building***** located at the Arizona School for the Deaf and Blind is a separate Property Unit. The warehouse and dining and kitchen spaces provide the education setting with logistics and food services support for students and their families. The warehouse and dining and kitchen spaces were built in 1990 and total 30,000 gross square feet. The Department estimates the replacement value at $6.0 million.

The ***Arizona School for the Deaf and Blind Phoenix Day School*** is located in central Phoenix, Arizona. The Phoenix Day School for the Deaf provides educational services to deaf and hard-of-hearing students from pre-school through high school in the Phoenix metropolitan area. The school campus consists of multiple educational facilities including classroom buildings, cafeteria, auditorium, library, storage and related and supporting structures. There are 18 structures, totaling approximately 165,429 gross square feet. The cumulative replacement value of the school campus is estimated by the Department to be $29.5 million.

The ***Arizona Supreme Court Building***** in the Capitol Mall area of Phoenix, Arizona. The downtown Supreme Court building was built in 1991 and is comprised of hearing rooms and offices. The Supreme Court's primary judicial duties under the Arizona Constitution are to review appeals and to provide rules of procedure for all the courts in Arizona. The building totals 257,207 gross square feet. Its replacement value as estimated by the Department is $53.8 million.

The ***Department of Economic Security Building.***** The four-story office building with four levels of underground parking directly beneath is located in the downtown Phoenix area in the State Capitol Mall. The building houses the administrative functions of the Arizona Department of Economic Security, one of the largest state agencies, which provides a wide array of state and federal funded social services programs. It also provides state employees and visitors with one of the largest cafeterias in the Capitol Mall and has an open atrium area. The structure was built in 1991, and totals 556,511 gross square feet. The Department estimates its replacement value as $50.9 million.

The ***State of Arizona Office Complex, Tucson, Arizona.***** The five-story office complex is located in downtown Tucson and houses several agencies including Health Services, the Attorney General's Office, the Department of Economic Security and the Secretary of State. It is comprised of a building, primarily of administrative function, built in 1991, and a mechanical building, built in 1980, that is shared with an adjacent building. The office building totals 243,208 gross square feet. Its replacement value is estimated by the Department to be $35.7 million.

The ***Parking Structure, Tucson, Arizona.***** The State of Arizona Office Complex described above includes a five-level parking garage provides quick access for the more than fifteen agencies occupying the surrounding buildings. It was built in 1991 and totals 105,781 gross square feet. Its replacement value as estimated by the Department is $2.9 million.

** These Property Units are subject to the Existing Lease Purchase Agreement. See "General Description."

The ***Arizona Historical Society Marley Center (Museum and Library)***** is located in Tempe, Arizona, near the eastern border of Phoenix. The Center was built in 1991 and totals 80,486 gross square feet. The main focuses of the museum and library are the changing history of Arizona, and particularly the kinds of people who helped shape that history. The museum brings stories to life through engaging exhibits, hands-on and multimedia displays, children's activities, and a variety of educational programs. The Arizona Historical Society charges admission. The Department estimates the Center's replacement value as $ 17.9 million.

The ***15th Avenue Parking Garage***** is a four level above ground parking structure comprised of approximately 674 parking spaces. It is located in the core of the Capitol Mall in Phoenix, near the Arizona Department of Education (ADE) administrative building. The garage provides employee and visitor parking to ADE and a variety of other state agencies. The parking structure was constructed in 1989 and totals 199,332 gross square feet. Its replacement value as estimated by the Department is $7.4 million.

Substitution and Release of Property

Pursuant to the terms of the Lease, and to the extent permitted by State law, the State may substitute one or more property units (the "Substitute Property Units") for Property Units initially included in the Property. To substitute for any Property Unit, the State must deliver to the Trustee:

1. A certificate of the State stating that: (i) the replacement value of the proposed Substitute Property Unit or Units is at least equal to the replacement value of the Property Unit or Units being replaced; (ii) the useful life of the Substitute Property Unit or Units is equal to or greater than that of the Property Unit or Units being replaced; (iii) the State will, at the time of the substitution, have beneficial use and occupancy of the Substitute Property Unit or Units; (iv) the Substitute Property Unit is essential to the governmental operations of the State; and (v) the representations and warranties in the Lease are current as of the date of the substitution.

2. An opinion of counsel to the effect that any amendment to the Lease for the purpose of Substitute Property Units has been duly authorized, executed and delivered and the Lease as so amended represents a valid and binding obligation of the State and the Trustee.

3. An Opinion of Special Counsel to the effect that the substitution will not adversely affect the exclusion of the interest component of the Base Rent from gross income for federal income tax purposes.

4. Confirmation that such substitution of the Property or Property Unit will not result in a downgrade, suspension or withdrawal of the rating then assigned by any rating agency to the Certificates.

5. An Opinion of Special Counsel to the effect that the release of such Property or Property Unit will not adversely affect the exclusion of the interest component of the Base Rent from gross income for federal income tax purposes.

6. Confirmation that the Certificate Insurer has consented to such substitution.

The State also has the option, pursuant to the Lease, to at any time release any portion of the Property or a Property Unit from the Lease provided that all of the following requirements are satisfied:

1. No Event of Default has occurred and is continuing under the Lease.

2. The State files with the Trustee a certificate stating that: (i) the replacement value of the Property after such release exceeds the amount of Outstanding Certificates remaining unpaid at

** These Property Units are subject to the Existing Lease Purchase Agreement. See "General Description."

the time of such release; and (ii) the useful life of the Property taken as a whole after such release is not less than that of the Property before such release.

3. The State files with the Trustee of an amendment to the Lease that deletes the legal description of the released Property or Property Unit.

4. A copy of the amended Lease is recorded.

5. Confirmation that the release of the Property or Property Unit will not result in a downgrade, suspension or withdrawal of the rating then assigned by any rating agency to the Certificates.

6. Confirmation that the Certificate Insurer has consented to such release.

Purchase Option

Pursuant to the terms of the Lease, and provided that there is not then existing an Event of Default or a default which with notice or lapse of time or both could become an Event of Default if not cured by payments provided for in the Lease, the State may purchase the Property or any Property Unit at any time by paying the Trustee the amount which will cause the defeasance of the Lease with respect to the Property or Property Units being purchased.

The State's Property and Liability Insurance

Under the terms of the Lease, the State is obligated to repair, restore or replace any portion of the Property that is damaged, destroyed or lost and to indemnify and defend the Trustee against any liability arising out of the State's use, possession or operation of the Property. The State is also required to keep the Property continuously insured. For these purposes, the State is required to maintain both property and liability insurance on the Property, either with recognized, responsible insurers qualified to do business in the State, or through a program of self-insurance.

The State is currently self-insured up to $3,500,000 per occurrence pursuant to Arizona Revised Statutes Section 41-621. The State purchases excess coverage through various insurance companies to cover losses above $3,500,000 up to $550,000,000. The policies each have a one-year term which currently expires December 31, 2010. Coverages can change from year to year and the State has found it necessary to increase its self-insured retention over the past several years. In the absence of any subsequent policy, or if any loss exceeds such insurance coverage, payments would be made from the State's self-insurance fund. Under the terms of the Lease, any property insurance proceeds with respect to the Property are required to be paid to the State for the purpose of repairing, restoring or replacing any portion of such Property damaged, destroyed or lost, or, at the option of the State, any such proceeds may be used by the State to purchase such Property and redeem Outstanding Series 2010B Certificates.

The Property policies do not cover damages resulting from hazardous substances, contaminants or pollutants. Any damages from such loss would be paid out of the State's self-insurance fund. The Property policies do cover acts of terrorism.

Liability insurance is currently self-insured up to $7,000,000 per occurrence pursuant to Arizona Revised Statutes Section 41-621. The State purchases excess coverage through various insurance companies to cover losses above $7,000,000 up to $125,000,000. The policies each have a one-year term which currently expires on September 1, 2010. Coverages can change year to year and the State has found it necessary to increase its self-insured retention over the past several years. In the absence of any subsequent policy, or if any loss exceeds such insurance coverage, payments would be paid from the State's self-insurance fund.

STATUTORY AUTHORITY FOR THE LEASE

The Director of the Department is authorized to enter into the Lease by the Authorizing Law. The obligation of the State to make payments under the Lease is considered a current expense of the Department, payable exclusively from appropriated monies, and is not a general obligation or indebtedness of the State or any political subdivision.

The Authorizing Law provides that if the State Legislature fails to appropriate monies or the Department fails to allocate such monies for any payment under the Lease, the Lease terminates at the end of the current term and the State and the Department are relieved of any subsequent obligation under the Lease. The Authorizing Law provides full authority for entering into and performing the Lease without regard to the requirements or procedures of any other law. The State is required under the Authorizing Law to maintain operations at any facility which is part of the Property.

THE DEPARTMENT OF ADMINISTRATION

The Director of the Department is appointed by the Governor of the State (the "Governor") and is charged with establishing organizational units within the Department and appointing assistant directors to head such units. The Director is also authorized to appoint a Deputy Director to act on his or her behalf, if necessary. Currently, the Interim Director of the Department is David Raber. In general, the Department is responsible for the operation and maintenance of certain public buildings, such as the State Capitol building in Phoenix, Arizona, the State office buildings in Tucson, Arizona, and most of the buildings located near those State buildings, all of which are owned or leased by the State. In addition, the Department is responsible for facilities planning and construction and for the acquisition of real properties for use by State departments and agencies through purchase, lease-purchase, condemnation or any other lawful manner.

THE STATE

Summary material describing certain information about the State's General Fund, which is expected to be the primary source from which the State would appropriate and allocate Lease Payments, the State's revenues and expenditures, information on the State's fiscal condition and budget deliberations for the current and recent fiscal years, and certain economic and demographic data is included in APPENDIX A hereto. The most recent audited financial statements of the State are included as APPENDIX B – "STATE OF ARIZONA AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009."

RISK FACTORS

The purchase of the Series 2010B Certificates involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective Series 2010B Certificate purchaser should make an independent evaluation of all of the information presented herein. Certain of these investment risks are described below. The list of risks described below is not intended to be definitive or exhaustive and the order in which the following factors are presented is not intended to reflect relative importance of risks.

Current Financial Stress

Since the start of 2008, the State has been experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. As a result of prolonged weakness in the Arizona economy, State tax revenues have declined precipitously, resulting in large budget gaps and cash shortfalls. The Legislature and the Governor have had to address major budgetary shortfalls in each of the fiscal years from 2007-08 through 2010-11. Since their peak in fiscal year 2006-07, State revenues have fallen approximately 34 percent. Additionally, the State's major social services populations have grown over this period. Specifically, the State's Medicaid system (AHCCCS) added over 200,000 new members in calendar year 2009. The deterioration of revenue and the increased expenditure demands led to a fiscal year 2008-09 ending unreserved General Fund balance shortfall of approximately $480.7 million. In response to this deterioration in the State's fiscal condition the Legislature enacted a series of budget measures including certain revenue increases, borrowing, use of federal stimulus funds, payment deferrals and expenditure reductions that have affected almost all general government, education, social services and other programs funded by the State. The State's financial projections continue to be based on a number of assumptions which may not be realized, and further budgetary actions may be needed to maintain a positive balance for the State's General Fund at the end of the 2009-10 fiscal year and in future fiscal years. See APPENDIX A – "INTRODUCTION" through and including "RECENT STATE FISCAL CONDITION."

On January 15, 2010, the Governor presented a comprehensive budget solution for both fiscal years 2009-10 and 2010-11. On March 15, 2010, the Legislature adopted a revised budget for fiscal year 2009-10 and a budget for fiscal year 2010-11. Because of the limited time left in the fiscal year to address the fiscal year 2009-10 projected shortfall, as well as the existing expenditure restrictions imposed by both the federal government and voter-approved initiatives, fiscal year 2009-10 budget solutions rely heavily on additional borrowing (including the Series 2010B Certificates) and deferrals in payments to State agencies and programs from fiscal year 2009-10 into fiscal year 2010-11 similar to prior fiscal years. The 2010-11 fiscal year budget solution is divided among three broad areas: revenue enhancements, transfers of existing fund balances, and significant budget reductions. Approximately $500 million of the budget solutions (out of a total appropriated budget of approximately $9.6 billion) is subject to voter approval and will be voted on at the general election held in November 2010. Additional reductions in various State agency budgets and increased ongoing revenues are also likely components of a budget solution.

The sharp drop in revenues over the current and last two fiscal years has also resulted in a significant depletion of cash resources to pay the State's ongoing operating expenditures. To meet its daily cash operating needs the State Treasurer has had to issue warrant notes, effectively financing the State's cash operating needs. See APPENDIX A – "CASH MANAGEMENT" herein.

There can be no assurances that the fiscal stress and cash pressures currently facing the State will not continue or become more difficult, or that continuing declines in State tax receipts or other impacts of the current economic recession will not further materially adversely affect the financial condition of the State. The Governor's Office of Strategic Planning and Budgeting has projected that multi-billion dollar budget gaps will occur annually through at least fiscal year 2014-15 without further corrective actions. See APPENDIX A – "FISCAL YEAR 2009-10 AND 2010-11 BUDGETS – Future Deficits."

Limited Obligation

The obligation of the Department to pay Lease Payments is not secured by the levy or pledge of any tax or any other funds or revenues derived from the Property and does not constitute a debt or indebtedness of the Department, the State or any other political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction. See "SECURITY FOR THE CERTIFICATES" herein.

A number of factors beyond the control of the Department, including downturns in the national or Arizona economy, decreased tax or other State revenues, spending reductions or increased expenditures for other purposes mandated by legislation or voter referendum or initiative measures or governmental rules, policies or judicial decisions, could adversely affect the amount of appropriated or non-appropriated funds made available to the Department in any year and could adversely impact the availability of monies for Lease Payments. For further discussion of the State's recent financial position, see APPENDIX A herein.

No Pledge of Department or State Funds

No funds or revenues of the Department or the State are pledged, obligated or restricted for the payment of the Lease Payments. In addition, the State Legislature has the right to refuse to appropriate funds to the Department for any reason. If the State Legislature refused to appropriate funds to the Department or the Department failed to allocate funds to pay Lease Payments, the Lease would terminate, and there is no assurance that the Trustee would have adequate funds available pursuant to the Declaration of Trust to pay principal and interest represented by the Certificates.

Other Obligations of Department and State

The State presently has outstanding $2.4 billion aggregate principal amount of lease-purchase financing and other obligations, all of which are payable from annually appropriated funds on the same basis and priority as the Series 2010B Certificates. See "APPENDIX A – STATE LEASE-PURCHASE OBLIGATIONS" herein. There is currently no restriction which limits the amount of future financing obligations the State may issue or incur for its activities and needs. To the extent that additional lease-purchase obligations are incurred by the State that are payable on the same basis as the Series 2010B Certificates, the funds available to pay Lease Payments may be decreased. To date, the State Legislature has always appropriated sufficient monies to meet all of the State's lease-purchase obligations, and the State has always paid the principal and interest with respect to its lease-purchase obligations when due. The Lease imposes no restrictions upon the ability of the Department or the State to incur additional obligations other than incurred pursuant to the Lease or the Declaration of Trust.

Termination of Lease

In addition to termination of the Lease upon Non-appropriation and nonallocation of funds (see "SECURITY FOR THE CERTIFICATES – Non-Appropriation; Termination of Lease" herein), several other events may lead to a termination of the Lease:

(1) an Event of Default on the part of the Department and an election by the Trustee to terminate the Lease (see "THE LEASE - Defaults and Remedies" in APPENDIX C hereto);

(2) the taking of all of the Property pursuant to the power of eminent domain; and

(3) violation of certain State statutes pertaining to conflicts of interest, described below.

If an Event of Default described in the Lease occurs, the Trustee may terminate the Lease and lease or sell its rights in the Property. The net proceeds from the leasing or sale of the Property, together with other monies then held by the Trustee pursuant to the Declaration of Trust are required to be used pursuant to the Declaration of Trust to pay principal and interest represented by the Certificates, as it becomes due, to the extent of such monies. No assurance can be given that the amount of funds obtained from such leasing or sale and from funds held pursuant to the Declaration of Trust would be sufficient to pay the Certificates, when due.

While the Department has covenanted, pursuant to the Authorizing Law, to use its best efforts to obtain and allocate sufficient appropriated monies to pay Lease Payments, the Lease also provides, as required by the Authorizing Law, that appropriating State monies is a legislative act and is beyond the control of the Department. See "SECURITY FOR THE CERTIFICATES – Non-Appropriation; Termination of Lease." If the Department fails to allocate appropriated monies or if the State Legislature fails to appropriate sufficient funds, then the Lease would terminate. If the Department fails or refuses to allocate funds and the Lease is terminated, there is no assurance that the Trustee would have adequate funds pursuant to the Declaration of Trust to pay principal and interest represented by the Certificates.

As required by the provisions of A.R.S. § 38-511, as amended, the State may, within three years after its execution, cancel any contract (including the Lease), without penalty or further obligation, made by the State or the Department if any person significantly involved in the initiating, negotiating, securing, drafting or creating the Lease on behalf of the Department (as originally executed and delivered) is, at any time while the Lease is in effect (during such three years), an employee of any other parties to the Lease in any capacity or a consultant to any other parties of the Lease with respect to the subject matter thereof. The cancellation shall be effective when written notice from the Governor is received by all other parties to the Lease unless the notice specifies a later time.

Special Counsel is not rendering an opinion with respect to the tax-exempt status of payments made to owners from sources other than funds made available by the Department in the event of the termination of the Lease for any reason (including termination upon nonappropriation or nonallocation of funds by the Department). If the Lease is terminated while Series 2010B Certificates are Outstanding, there is no assurance that any such termination payments made to owners (from sources other than funds made available by the Department) with respect to interest will be excludable from gross income of the owners thereof for federal or Arizona income tax purposes.

In addition, neither Special Counsel nor counsel to the Underwriters (identified on the cover page) are rendering an opinion as to the applicability or inapplicability of the registration requirements of the Securities Act of 1933, as amended, to the transfer of any Series 2010B Certificates in the event payments are received from sources other than funds made available by the Department following termination of the Lease for any reason. If the Lease is terminated while Series 2010B Certificates are Outstanding, there is no assurance that after such termination, Series 2010B Certificates may be transferred by a Series 2010B Certificate Owner without compliance with the registration provisions of the Securities Act of 1933, as amended, or that an exemption from such registration is available.

Limitations on Remedies

Due to the specialized nature of the Property and the limited number of potential users of the Property, no assurance can be given that the proceeds from any sale or leasing of the Property will be sufficient to pay in full the Certificates. The enforcement of any remedies provided in the Lease and the Declaration of Trust could prove both expensive and time consuming. In addition, the enforceability of the Lease and the Declaration of Trust is subject to applicable laws, equitable principles affecting the enforcement of creditors' rights generally and liens securing such rights, and the police powers of the State and its political subdivisions. Because of delays inherent in obtaining judicial remedies, it should not be assumed that these remedies could be accomplished rapidly. Any delays in the ability of the Trustee to obtain possession of the Property upon termination of the Lease or exercise of remedies upon default by the Department will, of necessity, result in delays in the receipt of revenues from the Lease Payments.

Although the Lease and the Declaration of Trust provide that the Trustee may take possession of the Property and (upon receipt of indemnification satisfactory to the Trustee) lease it or sell its interest therein if there is a default by the Department thereunder or if the Department terminates the Lease, and the Lease provides that the Trustee may have such rights of access to the Leased Property as may be necessary to exercise any remedies, no assurance can be given that revenues from the Trustee's re-leasing or selling of its interests in the Property would be sufficient to pay in full all Outstanding Certificates.

Upon the termination of the Lease or if the Department defaults in its obligation to pay Lease Payments thereunder, the Trustee is required pursuant to the Declaration of Trust to take action to force the Department to surrender possession of the Property. However, pursuant to the terms of the Declaration of Trust, the Trustee is not under any obligation to take any other action, if the Trustee determines that to do so exposes the Trustee to a risk of financial liability (including environmental liability) for which it reasonably believes it is not adequately indemnified. See "SECURITY FOR THE CERTIFICATES – Non-Appropriation; Termination of Lease" herein. Prior to taking other actions pursuant to the Declaration of Trust, the Trustee may demand assurances from the owners, such as an additional environmental audit or indemnity satisfactory to the Trustee, that it will not incur liability by reason of any other action taken by the Trustee pursuant to the Declaration of Trust.

Title to or Ownership of Leased Property; Diminished Condition or Value of Leased Property

As described under "THE PROPERTY – General Description" herein, there will be no title insurance policies regarding the status or priority of the State's ownership of a Property Unit. Until September 1, 2010, certain of the Property Units included as Additional Property are encumbered by the Existing Lease Purchase Agreement. See "THE PROPERTY – General Description." **Failure of the State to make its final lease payment of $25,265,000 on or before August 15, 2010 would result in the Trustee having a legal interest in the Property Units that are part of the Additional Property that is subject to Existing Lease Purchase Agreement**. See "THE PROPERTY – General Description." The amount of money that could be realized by the Trustee upon an exercise of remedies pursuant to the Declaration of Trust could be materially and adversely affected if the State does not possess good title to any Property Unit.

Substitution, Addition and Release of Property Units; No Assurance of Utility and Collateral Value of Property Units

The Lease provides that the Property Units may be changed from time to time and that any Property Unit may be changed in scope or kind, upon compliance with the requirements of the Lease. The Lease further provides that one or more Property Units may be deleted from the Lease, so long as the total replacement value for the remaining Property determined by the Department equals or exceeds the Outstanding principal amount of the Certificates.

No Appraisal or Determination of Market Value of Property; No Assurance of Adequacy of Market Value as Collateral

There has been no appraisal or other determination of market value of any of the Property Units, in connection with the execution and delivery of the Series 2010B Certificates and there is no requirement of any future appraisal or determination of market value. There can be no assurance that the market value of the Trustee's interest in the Property will at any time equal or exceed either the amount of Outstanding Certificates, or the remaining Lease Payments due under the Lease or that, upon the occurrence of an Event of Default or a termination of the Lease due to an Event of Non-appropriation of Funds, revenues from the Trustee's leasing or sale of its interest in the Property will be sufficient to pay in full all Outstanding Certificates.

No Debt Service Reserve Fund Established for Certificates

There is no requirement in the Declaration of Trust for the establishment and maintenance of any reserve fund or account with the Trustee which could be available to make payments of principal and interest represented by the Certificates if the Trustee did not otherwise have sufficient funds to make such payments when due, including upon the occurrence of an Event of Default or a termination of the Lease due to an Event of Non-appropriation of Funds.

UNDERWRITING

The Underwriters have agreed to purchase the Series 2010B Certificates at an aggregate purchase price of $____________ (which represents a principal amount of $____________ plus net original issue premium of $____________ and less a discount retained by the Underwriters' of $____________). The Underwriters are obligated to accept delivery and pay for all of the Series 2010B Certificates if any are delivered. The Underwriters may offer and sell the Series 2010B Certificates to certain dealers (including dealers depositing Series 2010B Certificates into unit investment trusts) and others at prices lower than the public offering prices reflected on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an underwriter of the Series 2010B Certificates, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of Series 2010B Certificates.

One of the Underwriters is Wells Fargo Securities which is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC member of FINRA and SIPC, and Wells Fargo Bank, National Association.

RATINGS

The Series 2010B Certificates are expected to be rated "Aa3" (negative outlook) by Moody's Investors Service ("Moody's"), and "AAA" (negative outlook) by Standard & Poor's Ratings Services ("S&P") with the understanding that, upon delivery of the Series 2010B Certificates, the Policy will be issued by the Certificate Insurer. The Series 2010B Certificates have also been assigned uninsured, underlying ratings of "Aa3 (negative outlook) by Moody's and "A+" (negative outlook) by S&P. Explanations of the significance of such ratings may be obtained from Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York 10041 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Such ratings express only the views of the rating agencies. There is no assurance that any such ratings will continue for any period of time or that the ratings will not be revised or withdrawn. Any such revision or withdrawal of the ratings may have an adverse effect on the market price or marketability of the Series 2010B Certificates.

The State expects to furnish each rating agency with information and materials that it may request in the future. However, the State assumes no obligation to furnish requested information or materials, and may enter into other lease-purchase agreements for which a rating is not requested. Failure to furnish requested information and materials, or the execution and delivery of certificates of participation for which a rating is not requested, may result in the suspension or withdrawal of the rating on the Series 2010B Certificates.

LITIGATION

Other than as described herein, there is no litigation or administrative action pending in any court, or to the best knowledge of the State, threatened which (i) would restrain or enjoin the sale or execution and delivery of the Series 2010B Certificates or in any way contest or affect the validity of the Series 2010B Certificates or the pledge and application of any funds provided for their payment, (ii) concerns the proceedings of the State or the Department taken in any connection with the sale or execution and delivery of the Series 2010B Certificates, or (iii) contests the powers of the State, including the Department, with respect to the foregoing.

The State and the Department are party to numerous legal proceedings as either a plaintiff or a defendant. The ultimate disposition of any legal proceedings cannot be predicted or determined at this time. The Director of the Department will deliver a closing certificate to the effect that, to his knowledge, no pending lawsuits or other claims affecting the State or the Department will be finally determined so as to result, individually or in the aggregate, in a final judgment against the State or the Department which would materially and adversely affect the State or the Department, their ability to make Lease Payments on the Series 2010B Certificates from appropriated amounts or the State's financial position.

LEGAL MATTERS

Legal matters incident to the execution and delivery of the Series 2010B Certificates and with regard to the tax-exempt status of the Interest Portion (see "TAX MATTERS") are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., whose legal services as Special Counsel have been retained by the State. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the Series 2010B Certificates, will be delivered to the State at the time of original delivery.

The proposed text of the legal opinion is set forth as APPENDIX D. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of this Official Statement or otherwise shall create no implication that Special Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

Certain matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig.

TAX MATTERS

General

In the opinion of Squire, Sanders & Dempsey L.L.P., Special Counsel, under existing law (i) the Interest Portion of the Lease Payments paid under the Lease and received by the Registered Owners is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) the Interest Portion is exempt from Arizona state income tax. Special Counsel expresses no opinion as to any other tax consequences regarding the Series 2010B Certificates. Under certain circumstances, interest paid for periods following termination of the Lease by Non-Appropriation may not be excludable from gross income for federal income tax purposes. Special Counsel expresses no opinion on the federal income tax or Arizona state income tax treatment of amounts paid to Registered Owners in the event of termination of the Lease by Non-Appropriation or as to any other tax consequences regarding the Series 2010B Certificates. See also "SECURITY FOR THE CERTIFICATES -- Non-Appropriation; Termination of Lease" and "-- Non-Appropriation; Effect on Tax Status."

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the State contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Interest Portion is and will remain excluded from gross income for federal income tax purposes. Those covenants include early redemption of Series 2010B Certificates. See "THE SERIES 2010B CERTIFICATES -- Redemption Provisions -- Mandatory Redemption from Mandatory Prepayment Amounts." Special Counsel will not independently verify the accuracy of the State's certifications and representations or the continuing compliance with the State's covenants.

The opinion of Special Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Special Counsel's legal judgment as to the exclusion of the Interest Portion on the Series 2010B Certificates from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Special Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the State may cause loss of such status and result in the Interest Portion being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2010B Certificates. The State has covenanted in the Lease to take the actions required of it for the Interest Portion to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. Notwithstanding the previous sentence, in the event of termination of the Lease by Non-Appropriation, use of the property or the facilities financed with the proceeds of the Series 2010B Certificates in a manner that would cause the Lease, if the property or the facilities financed with the proceeds of the Series 2010B Certificates had originally been used in such manner, to constitute a "private activity bond" under Section 141 of the Code may prompt the Internal Revenue Service to take the position that the Interest Portion is not excludable from gross income for federal income tax purposes, retroactive to the date of execution and delivery of the Series 2010B

Certificates. After the date of issuance of the Series 2010B Certificates, Special Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Special Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of the Interest Portion of the Series 2010B Certificates or the market value of the Series 2010B Certificates.

Although a portion of the interest on certain tax-exempt obligations earned by certain corporations may be included in the calculation of adjusted current earnings for purposes of the federal corporate alternative minimum tax, interest on certain tax-exempt obligations issued in 2009 and 2010, including the Interest Portion of the Series 2010B Certificates, is excluded from that calculation. The Interest Portion may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2010B Certificates. Special Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Interest Portion, are generally subject to IRS Form 1099-INT information reporting requirements. If an owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress, and legislation affecting the exemption of bonds or interest thereon for purposes of State of Arizona taxation may also be considered by the Arizona Legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Series 2010B Certificates. There can be no assurance that legislation enacted or proposed or actions by a court after the date of issuance of the Series 2010B Certificates will not have an adverse effect on the tax status of the Interest Portion of the Series 2010B Certificates or the market value of the Series 2010B Certificates.

Prospective purchasers of the Series 2010B Certificates should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Series 2010B Certificates at other than their original issuance at the respective prices indicated on the inside front cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Special Counsel expresses no opinion.

Special Counsel's engagement with respect to the Series 2010B Certificates ends with the execution and delivery of the Series 2010B Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the State or the Beneficial Owners regarding the tax status of the Interest Portion of the Series 2010B Certificates in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2010B Certificates, under current IRS procedures, the IRS will treat the State as the taxpayer and the Beneficial Owners will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2010B Certificates for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2010B Certificates.

Original Issue Discount and Original Issue Premium

Certain of the Series 2010B Certificates ("Discount Certificates") as indicated on the inside front cover of this Official Statement were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Certificate.

The issue price of a Discount Certificate is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Certificates of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Certificate over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Certificate (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as the Interest Portion of the Series 2010B Certificates, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Certificate. A purchaser of a Discount Certificate in the initial public offering at the price for that Discount Certificate stated on the inside front cover of this Official Statement who holds that Discount Certificate to maturity will realize no gain or loss upon the retirement of that Discount Certificate.

Certain of the Series 2010B Certificates ("Premium Certificates") as indicated on the inside front cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes certificate premium. For federal income tax purposes, certificate premium is amortized over the period to maturity of a Premium Certificate, based on the yield to maturity of that Premium Certificate (or, in the case of a Premium Certificate callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Certificate), compounded semiannually. No portion of that certificate premium is deductible by the owner of a Premium Certificate. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Certificate, the owner's tax basis in the Premium Certificate is reduced by the amount of certificate premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Certificate for an amount equal to or less than the amount paid by the owner for that Premium Certificate. A purchaser of a Premium Certificate in the initial public offering at the price for that Premium Certificate stated on the inside front cover of this Official Statement who holds that Premium Certificate to maturity (or, in the case of a callable Premium Certificate, to its earlier call date that results in the lowest yield on that Premium Certificate) will realize no gain or loss upon the retirement of that Premium Certificate.

Owners of Discount Certificates and Premium Certificates should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or certificate premium properly accruable or amortizable in any period with respect to the Discount Certificates or Premium Certificates and as to other federal tax consequences and the treatment of OID and certificate premium for purposes of state and local taxes on, or based on, income.

INDEPENDENT AUDITORS

The financial statements of the State as of June 30, 2009 and for its fiscal year then ended, which are included as APPENDIX B of this Official Statement, have been audited by the State of Arizona Auditor General (the "Auditor General"), as stated in the opinion which appears in APPENDIX B. These are the most recent audited financial statements of the State. **These financial statements are not current and do not represent the current financial condition of the State. For more information concerning the State's fiscal condition, see APPENDIX A.**

The State neither requested nor obtained the consent of the Auditor General to include the financial statements in this Official Statement nor has the Auditor General reviewed this Official Statement or performed any procedures subsequent to rendering the opinion on the financial statements.

FINANCIAL ADVISOR

RBC Capital Markets Corporation is employed as the Financial Advisor to the State in connection with the execution and delivery of the Series 2010B Certificates. The fees for Financial Advisor are contingent upon the sale, execution and delivery of the Series 2010B Certificates.

CONTINUING DISCLOSURE UNDERTAKING

As contemplated by Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the Department will execute a written Continuing Disclosure Undertaking (the "Undertaking"), substantially in the form set forth in APPENDIX E, wherein the Department will agree, for the benefit of the Beneficial Owners, to provide, or cause to be provided, certain annual financial information that is generally consistent with the information contained under the heading "STATE OF ARIZONA – SUMMARY OF STATE REVENUES AND EXPENDITURES – State General Fund – Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Accrual Basis" in APPENDIX A for the prior fiscal year, and notice of the occurrence of certain events or failures to take certain required actions with respect to the Series 2010B Certificates.

The Department may from time to time choose to provide notice of the occurrence of other events, in addition to those required in the Undertaking, but the Department does not undertake or commit to provide any notice of the occurrence of any event except those events listed in the Undertaking, if material.

The obligations of the Department described in the Undertaking will remain in effect until the Series 2010B Certificates are no longer Outstanding or the Rule no longer applies to the Series 2010B Certificates. The Undertaking may be amended or waived upon receipt by the Department of an opinion of independent counsel to the effect that the amendment or waiver would not, in and of itself, cause the Undertaking to violate the Rule.

A Beneficial Owner may seek to enforce the agreements of the Department in the Undertaking by an action for specific performance in any court of competent jurisdiction in Phoenix, Arizona after providing the Department with 30 days prior written notice of its failure to perform. Any failure of the Department to comply with any of its agreements in the Undertaking shall not be an event of default with respect to the Series 2010B Certificates or the Lease.

Continuing disclosure undertakings previously entered into by the State called for the State to file annual reports and audited financial information and operating data with respect to fiscal years ended June 30, 2006, June 30, 2007, June 30, 2008 and June 30, 2009 by February 1, 2007, February 1, 2008, February 1, 2009 and February 1, 2010, respectively. The State filed the required information due on February 1, 2007 on June 25, 2007, the required information due on February 1, 2008 on June 30, 2008, the required information due on February 1, 2009 on June 4, 2009, and the required information due on February 1, 2010 on May 10, 2010. The State is otherwise currently in compliance, in all material respects, with its previous continuing disclosure undertakings.

ADDITIONAL INFORMATION

Additional copies of this Official Statement may be obtained from the Underwriters by contacting Morgan Stanley & Co. Incorporated, 1221 Ave of the Americas, 30th Floor, New York, New York 10020, Attention: Public Finance Department.

CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these opinions or estimates have been or will be realized. Information in this Official Statement has been derived by the State from official and other sources and is believed by the State to be accurate and reliable. Information other than that obtained from official records of the State has not been independently confirmed or verified by the State and its accuracy is not guaranteed.

Neither this Official Statement nor any statements that may have been or that may be made orally or in writing is to be construed as a part of a contract with the original purchasers or subsequent Registered Owners of the Series 2010B Certificates.

This Official Statement has been prepared and delivered by the State and executed for and on behalf of the State by its officer indicated below.

STATE OF ARIZONA

By ____

Interim Director, Department of Administration

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APPENDIX A

STATE OF ARIZONA

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APPENDIX A

TABLE OF CONTENTS

THE STATE OF ARIZONA

INTRODUCTION

This APPENDIX A provides investors with information concerning the State of Arizona. This Introduction is intended to give readers a very brief overview of certain of the topics covered in this APPENDIX A. Investors are advised to read the entire Official Statement, including APPENDIX A, to obtain information essential to making an informed investment decision. See "Certain Defined Terms" below for certain defined terms used in this APPENDIX A.

Current Financial Stress

Since the start of 2008, the State has been experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. As a result of continuing weakness in the Arizona economy, State tax revenues have declined precipitously, resulting in large budget gaps and cash shortfalls. The Legislature and the Governor have had to address major budgetary shortfalls in each of the fiscal years from 2007-08 through 2010-11. Since their peak in fiscal year 2006-07, State revenues have fallen approximately 34 percent. Additionally, the State's major social services populations have continued to grow. Specifically, the State's Medicaid system (AHCCCS) added over 200,000 new members in calendar 2009. The continued loss of revenue and increased expenditure requirements led to a fiscal year 2008-09 ending unreserved General Fund balance shortfall of approximately $480.7 million. In response to the this deterioration in the State's fiscal condition, the Legislature has enacted a series of budget solutions including certain revenue increases, borrowing, use of federal stimulus funds, payment deferrals and expenditure reductions that have affected almost all general government, education, social services and other programs funded by the State. Recently, the Legislature and the Governor addressed further budget deficits estimated to be approximately $1.4 billion for fiscal year 2009-10 and $3.2 billion in fiscal year 2010-11. The State's financial projections continue to be based on a number of assumptions which may not be realized, and further budgetary actions may be needed to maintain a positive balance for the State's General Fund at the end of the 2009-10 fiscal year and in future fiscal years. See "FISCAL YEAR 2009-10 AND 2010-11 BUDGETS – Budget Risks."

The Initial 2009 Budget Act adopted in June, 2008 estimated General Fund revenues and transfers for fiscal year 2008-09 of approximately $9.98 billion with expenditures of $9.91 billion. By the time of the adoption of an Amended 2010 Budget Act in March 2010, General Fund revenues (including certain new revenues) for the 2009-10 fiscal year were estimated at $7.1 billion and expenditures at $8.5 billion.

The sharp drop in revenues over the current and last two fiscal years has also resulted in a significant depletion of cash resources to pay the State's ongoing operating expenditures. To meet its daily cash operating needs the State Treasurer has had to issue warrant notes, effectively financing the State's cash operating needs. See "CASH MANAGEMENT" herein.

There can be no assurances that the fiscal stress and cash pressures currently facing the State will not continue or become more difficult, or that continuing declines in State tax receipts or other impacts of the current economic recession will not further materially adversely affect the financial condition of the State. The Governor's Office of Strategic Planning and Budgeting ("OSPB") has projected that significant budget gaps will occur annually through at least fiscal year 2014-15 without further corrective actions. See "FISCAL YEAR 2009-10 AND 2010-11 BUDGETS – Future Deficits."

State Revenues and Expenditures

The State receives revenues from taxes, fees and other sources, the most significant of which are the transaction privilege (sales) tax, the personal income tax and the corporate income tax. The State expends money on a variety of programs and services. Significant elements of State expenditures include education (both kindergarten through twelfth grade ("K-12") and higher education), health and human services, correctional programs, transportation and debt service. For a discussion of the sources and uses of State funds, see "STATE FINANCES."

As of the date of the Amended 2010 Budget Act adopted in March, 2010, General Fund revenues and transfers were projected to decrease 15.4 percent, from a preliminary $8.27 billion in fiscal year 2008-09 to $7.01 billion in fiscal year 2009-10. The Amended 2010 Budget Act contains General Fund appropriations of $7.82 billion in fiscal year 2009-10, compared to $8.80 billion in fiscal year 2008-09, an 11.1 percent decrease. See "FISCAL YEAR 2009-10 AND 2010-11 BUDGETS." The Legislature passed, and the Governor signed, HB 2001, which addressed the projected remaining shortfall for fiscal year 2009-10, as well as the Initial 2011 Budget Act, in March, 2010. Both the Amended 2010 Budget Act and the Initial 2011 Budget Act and related legislation addressing the State's financial situation are based on a variety of assumptions. There can be no assurances that the financial condition of the State will not be further materially adversely affected by actual conditions or circumstances, including but not limited to further reduced revenues. See "FISCAL YEAR 2009-10 AND 2010-11 BUDGETS – Budget Risks."

General Fund

The monies of the State are segregated into the General Fund and various other funds, including special, agency and trust funds. The General Fund consists of revenues received by the State and not required by law to be credited to any other fund, as well as earnings from the investment of State monies not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities, is the depository of most of the major revenue sources of the State and is the fund from which amounts to pay the Certificates are expected to be appropriated. Additional financial data relating to the General Fund is included in this APPENDIX A and in the financial statements for fiscal year 2008-09 included in APPENDIX B. **The audited financial statements for fiscal year 2008-09 are the most recent financial statements of the State. These financial statements are not current and do not represent the current financial condition of the State.**

State Budget

The State's fiscal year begins on July 1 and ends on June 30 of the next calendar year. State law specifies that an annual budget shall be proposed by the Governor by the second Tuesday in January of each year for the next fiscal year (the "Governor's Budget"). Under State law, the Governor's Budget cannot provide for projected expenditures in excess of projected revenues for the ensuing fiscal year. Following the Governor's Budget, the Joint Legislative Budget Committee ("JLBC") staff releases a proposed legislative budget for the next fiscal year. The Governor's Budget and the JLBC budget form the basis for final negotiations between the Governor and Legislature to reach agreement on appropriations and other legislation to fund State government for the ensuing fiscal year (the "Budget Act"). The Budget Act must be approved by a simple majority vote of each House of the Legislature.

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the State to raise taxes, restrict the use of the General Fund or special fund revenues, or otherwise limit the Legislature and the Governor's discretion in enacting budgets. See "THE STATE BUDGET AND APPROPRIATIONS PROCESS – Constraints on the Budget Process."

The budget process and constraints on this process, and the economic assumptions underlying the revenue projections contained in the current Amended 2010 Budget Act, are discussed under "FISCAL YEAR 2009-10 AND 2010-11 BUDGETS" and "THE STATE BUDGET AND APPROPRIATIONS PROCESS."

State Lease-Purchase Obligations

The State has outstanding approximately $2.4 billion principal amount of lease-purchase obligations that are payable primarily from the State's General Fund. See "STATE LEASE-PURCHASE OBLIGATIONS -- Outstanding State Lease-Purchase Obligations." To date, the State Legislature has always appropriated sufficient monies to meet all of the State's lease-purchase obligations and the State has always paid the principal and interest with respect to its lease-purchase obligations when due.

Financial Statements

APPENDIX B includes the Audited Basic Financial Statements of the State for the Year Ended June 30, 2009, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the State and provides an overview of the State's activities for the fiscal year ended June 30, 2009. **These are the most recent audited financial statements of the State. These financial statements are not current and do not represent the current financial condition of the State.**

Population and Economy of the State

Certain demographic and economic information concerning Arizona and its major population areas is included in this APPENDIX A under "ECONOMIC AND DEMOGRAPHIC INFORMATION."

Certain Defined Terms

The following terms and abbreviations are used in this APPENDIX A:

"Amended 2008 Budget Act" means the amended Budget Act for the 2007-08 fiscal year adopted on April 18, 2008.

"Amended 2009 Budget Acts" means various amendments to the Initial 2009 Budget Act adopted in February, March and May of 2009, together with other related budget legislation.

"Amended 2010 Budget Acts" means various amendments to the Initial 2010 Budget Act adopted in August, November, and December of 2009, and in March 2010, together with other related budget legislation.

"ASFB" means the Arizona School Facilities Board.

"BSF" means the Budget Stabilization Fund of the State. See "STATE FINANCES – Budget Reserves."

"Initial 2008 Budget Act" means the Budget Act for the 2007-08 fiscal year adopted on June 25, 2007.

"Initial 2009 Budget Act" means the Budget Act for the 2008-09 fiscal year adopted on June 27, 2008, together with other related budget legislation.

"Initial 2010 Budget Act" means the Budget Act for the 2009-10 fiscal year adopted on July 1, 2009, together with certain amendments adopted through September 4, 2009, and other related budget legislation.

"Initial 2011 Budget Act" means the Budget Act for the 2010-11 fiscal year adopted on March 15, 2010.

"2008-09 Governor's Budget" means the Governor's Proposed Budget for the 2008-09 fiscal year released on January 18, 2008.

“2009-10 Governor’s Budget” means the Governor’s Proposed Budget for the 2009-10 fiscal year released on January 16, 2009.

THE STATE BUDGET AND APPROPRIATIONS PROCESS

General

Historically, the State Legislature has adopted an annual operating and capital outlay budget for all agencies of the State. The budget process is initiated by the Governor submitting the Governor’s Budget by the second Tuesday in January for the next fiscal year to the State Legislature that includes proposed expenditures for the State and its agencies and the means of funding those expenditures. Thereafter, the staff of the JLBC analyzes the Governor’s Budget and recommends an alternative budget. Public hearings are then conducted during the Legislative session and, generally prior to July 1, the budget is adopted through passage of appropriations bills. State agencies are then responsible, under the oversight of the Department’s General Accounting Office, for exercising budgetary control and ensuring that expenditures do not exceed appropriations. The State Legislature has authority during the fiscal year to make additions, deletions or amendments to the adopted budget.

The accounts of the State are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. It is expected that monies to be appropriated for Lease Payments will be paid primarily from the State’s General Fund. The General Fund is used for all financial resources except those required to be accounted for in another fund. General Fund revenues are derived primarily from the collection of taxes, specifically transaction privilege (also referred to herein as “sales tax”), income (individual and corporate), motor vehicle, insurance premium and other taxes. Other State funds include special revenue funds, capital projects, debt service, enterprise, internal service, university, and trust and agency funds. APPENDIX B contains the State’s general purpose financial statements for the fiscal year ended June 30, 2009. For further discussion of the State’s recent financial position, see “STATE FINANCES” and “RECENT STATE FISCAL CONDITION” herein.

Pursuant to authorizing legislation, the Lease is required to provide that the obligation of the State to pay Lease Payments and Additional Rent pursuant thereto is a current expense of the State, payable primarily from appropriated monies and not a general obligation or indebtedness of the State. If the State Legislature fails to appropriate monies or the Department fails to allocate such monies for payment of Lease Payments and Additional Rent, then the State and the Department are relieved of any subsequent payment obligation under the Lease. The Department agrees in the Lease to use its best efforts to budget, obtain, allocate and maintain sufficient appropriated monies to pay Lease Payments and Additional Rent, but the Lease contains an acknowledgement that appropriating State monies is a legislative act beyond the control of the Department. See “SECURITY FOR THE SERIES 2010A CERTIFICATES – Non-Appropriation; Termination of Lease” in the Official Statement to which this APPENDIX A is attached.

Constraints on the Budget Process

Over the years, a number of laws have been enacted, often through voter initiatives, which have increased the difficulty of raising State taxes, restricted the use of the State’s General Fund or special fund revenues, or otherwise limited the Legislature and the Governor’s discretion in enacting budgets. In fiscal year 2009-10, approximately 73 percent of the State’s General Fund is protected from Legislative budget reductions due to voter initiative and federal expenditure requirements. In the event the State desires to increase the tax and fee revenues deposited in the General Fund, the State Constitution requires that any legislation that provides for a net increase in such State revenues requires the affirmative vote of two-thirds of the members of each house of the State Legislature. If the legislation receives the necessary two-thirds votes, the legislation will become effective immediately upon the signature of the Governor. If the Governor vetoes the measure, then the legislation will not become effective unless it is approved by an affirmative vote of three-fourths of the members of each house of the State Legislature. This constitutional requirement applies to legislation that would provide for a net increase in State revenues in the form of: (1) the imposition of any new tax, (2) an increase in a tax rate or rates, (3) a reduction or elimination of a tax deduction, exemption, exclusion, credit or other tax exemption feature in computing tax liability, (4) an increase in a statutorily prescribed State fee or assessment or an increase in a statutorily prescribed maximum limit for an administratively set fee, (5) the imposition of any new State fee or assessment or the authorization of any new administrative set fee, (6) the elimination of an exemption from a statutorily prescribed State fee or assessment, (7) a change in the allocation among the State, counties or cities of Arizona transaction privilege, severance, jet fuel and use, rental occupancy, or other taxes, or (8) any combination of the foregoing. This constitutional requirement does not apply to the effects of inflation, increasing assessed valuation or any other similar effect that increases State revenue but which is not caused by an affirmative act of the State Legislature. In addition, the requirement does not apply to fees and assessments that are authorized by statute, but are not prescribed by formula, amount or limit, and are set by a State officer or agency, and does not apply to taxes, fees or assessments that are imposed by counties, cities, towns and other political subdivisions of the State.

STATE FINANCES

The General Fund

The monies of the State are segregated into the General Fund and various other funds, including special, agency and trust funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state monies not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities, is the depository of most of the major revenue sources of the State and is the fund from which amounts to pay the Certificates are expected to be appropriated. For additional financial data relating to the General Fund, see the financial statements included in APPENDIX B and "RECENT STATE FISCAL CONDITION." **The audited financial statements for fiscal year 2008-09 are the most recent audited financial statements of the State. These financial statements are not current and do not represent the current financial condition of the State.** The General Fund may be expended as a consequence of appropriation or funding measures enacted by the Legislature and approved by the Governor (including the annual Budget Act), as well as appropriations pursuant to various voter initiatives.

Budget Reserves - Budget Stabilization Fund

The BSF, which acts as a budgetary reserve for the State, is funded with General Fund revenues and was established to normalize (over time) the fluctuations of the State's high and low growth rates and to help protect the State from unforeseen revenue reductions and/or unanticipated expenditure increases. The amount of funds transferred to or from the BSF is established by statutory formula, but may also be specified by additional acts of the Legislature. No operating expenditures may be directly incurred from monies in the BSF. Other than transfers from the General Fund, interest earned on pooled investments held by the State Treasurer is the primary revenue source of the BSF.

The balance in the BSF was approximately $147.2 million and $2.8 million as of June 30, 2008 and June 30, 2009, respectively. The balance in the BSF was completely obligated as part of the Amended 2010 Budget Acts and the State does not project a balance in the BSF for the next several fiscal years.

Sources of Tax Revenue

The following is a summary of the State's major tax revenues. In fiscal year 2008-09, approximately 90.0 percent of the State's General Fund revenues and transfers were derived from sales and use taxes, personal income taxes and corporate income taxes. See the table below for a summary of the actual and projected sources of the State's tax revenue from these sources for fiscal years 2004-05 through 2009-10.

Sales and Use Tax

The transaction privilege (or sales) tax accounted for 48.8 percent of General Fund revenues and transfers in fiscal year 2008-09. The sales tax is levied upon business activities within the State that are subject to the tax.

The tax is measured by the amount or volume of business transacted by persons or entities on account of their business activities, and in the amounts to be determined by the application of tax rates against values, gross proceeds of sale or gross income as set forth in law. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains, and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

The Arizona use tax is imposed at the same rates as the regular sales tax on consumers of tangible personal property that is used, consumed, or stored in this state. Use tax applies to purchases from out-of-state vendors that are not required to collect tax on their sales. Use tax also applies to most leases of tangible personal property.

Personal Income Tax

The Arizona personal income tax, which accounted for 33.4 percent of General Fund revenues and transfers in fiscal year 2008-09, is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 2.59 percent to 4.54 percent. Personal, dependent, and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT.

Taxes on capital gains realizations, which are largely linked to stock market performance, can add a significant dimension of volatility to personal income tax receipts. Capital gains tax receipts accounted for as much as 6.9 percent and as little as 2.6 percent of General Fund revenues over the past 10 years.

Corporate Income Tax

The corporate income tax accounted for 7.7 percent of General Fund revenues and transfers in fiscal year 2008-09.

The corporate income tax is levied on corporations that engage in business within Arizona. The tax rate currently is 6.968 percent of taxable income.

The following table displays the actual revenues by major source for the past five fiscal years, and estimated revenues for the current fiscal year and for fiscal year 2010-11 and has not been the subject of any separate audit procedures. The information presented shows taxes that provide revenue to the General Fund.

Select State General Fund Tax Revenues (a)
Fiscal Years 2004–05 Through 2010–11
(Modified Accrual Basis)
(Dollars in Thousands)

Year Ending June 30	Sales and Use	Personal Income	Corporate Income
2005 (b)	$3,661,169	$2,973,013	$701,859
2006 (b)	4,273,358	3,689,500	874,220
2007 (b)	4,457,529	3,735,703	986,170
2008 (b)	4,353,565	3,406,453	784,511
2009 (b)	3,756,407	2,568,096	592,157
2010 (c)	3,481,000	2,306,500	426,000
2011 (c)	4,535,500	2,414,500	447,000

(a) Reflects amounts retained by State and does not include intergovernmental revenue sharing distributed to local governments
(b) Based on audited financial statements.

(c) As projected by the OSPB and as such are “forward looking” and should be considered with an abundance of caution. The amount shown for “Sales and Use” reflects an increase in the State’s transaction privilege (sales) tax that was approved by Arizona’s voters at an election held on May 18, 2010.

Source: Arizona Department of Revenue, OSPB.

American Recovery and Reinvestment Act

Congress enacted the American Recovery and Reinvestment Act in February 2009 (“ARRA”), which provides approximately $787 billion of economic stimulus actions in the form of direct payments from the federal government and tax relief to individuals and businesses nationwide. The stimulus bill provides about $330 billion in aid to states, about $170 billion for federal projects and non-state aid, and about $287 billion of tax relief.

As reported in the Federal Financial Information System (FFIS), Arizona is estimated to receive approximately $6.7 billion in federal aid through ARRA, including funding made available to the State, its political subdivisions, Tribal Nations, and other recipients within Arizona. Over the course of ARRA, Arizona as a whole is expected to realize $2.7 billion of federal stimulus in health and human services, $2.5 billion of federal stimulus in education, $60.9 million of federal stimulus in labor and workforce development, and $622.5 million of federal stimulus in transportation infrastructure.

The Amended 2010 Budget Act includes an estimated $1.6 billion of federal stimulus revenues being available to offset General Fund expenditures in the 2009-10 fiscal year. The Initial 2011 Budget Act includes $603 million of such stimulus revenues. See “FISCAL YEAR 2009-10 AND 2010-11 BUDGETS – Amended 2010 Budget Act.”

State Expenditure Limit

Article IX, Section 17 of the Arizona Constitution imposes a limit on the amount of State revenues that the Legislature may appropriate for a fiscal year to a percentage of Arizona personal income. Currently, this limit is 7.41 percent of Arizona personal income. The Constitutional provision also defines the type of State revenues that are subject to the appropriations limit, which include taxes, university collections, licenses, fees and permits. Certain revenues are excluded from the limitation, including interest and dividends, sales for services and rentals, federal grants and funding, donations and gifts, and amounts received in trust.

The OSPB, in consultation with the staff of the JLBC, is required by statute to report the appropriations subject to the Constitutional limit. This calculation is prepared by February 15th of each year and indicates the appropriations that are or will be subject to the limit in the previous, current and subsequent fiscal years. The most recent calculations prepared by OSPB indicate that the appropriations subject to the limit, as a percent of Arizona personal income, were 5.41 percent for fiscal year 2008-09, projected to be 5.61 percent for fiscal year 2009-10, and projected to be 5.94 percent for fiscal year 2010-11.

SUMMARY OF STATE REVENUES AND EXPENDITURES

The following table presents, **on a modified accrual basis**, the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2004-05 through 2008-09. The audited financial information in this table was taken from the comprehensive financial reports of the State for the fiscal years ended June 30, 2005 through June 30, 2009. The information in the table has not been separately audited. The most recent audited financial statements of the State are included in APPENDIX B – “STATE OF ARIZONA AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009.” The information in this table and in the comprehensive financial reports includes federal financial grants and assistance (see footnote (2) on the attached table). The table also includes in “Revenues” and “Expenditures” intergovernmental revenue sharing which is distributed to local political subdivisions.

State General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2005-2009 – Modified Accrual Basis – BASED ON AUDITED INFORMATION
(expressed in thousands)

	Audited				
	2005	**2006**	**2007**	**2008**	**2009**
REVENUES:					
Taxes					
Sales and Use	$4,546,492	$5,427,713	$5,666,980	$5,450,023	$4,669,693
Income	3,528,522	4,535,454	4,629,179	4,174,859	3,137,714
Tobacco	60,859	64,078	98,436	83,224	75,128
Motor vehicle and fuel	629	587	686	915	0
Property	29,055	29,117	28,433	22,910	20,589
Other taxes (1)	395,335	467,428	438,539	453,274	456,561
Intergovernmental (2)	7,132,985	7,532,085	7,832,627	8,831,263	10,614,124
Licenses, fees and permits	91,278	106,244	113,730	115,156	110,563
Earnings on investments(3)	59,454	116,618	172,435	112,624	19,107
Sales and Charges for services	85,356	89,593	84,465	95,288	88,198
Fines, forfeitures and penalties	16,285	18,087	25,809	33,805	40,570
Gaming	4,760	6,008	6,751	6,695	5,973
Tobacco Settlement	93,933	86,231	90,258	115,587	125,571
Other revenues	288,327	97,532	120,737	112,495	147,796
TOTAL REVENUES	**$16,333,270**	**$18,576,775**	**$19,309,065**	**$19,608,118**	**$19,511,587**
EXPENDITURES:					
Current:					
General Government(4)	$1,910,956	$2,220,923	$2,385,433	$2,620,411	$2,430,053
Health and Welfare	8,088,851	8,657,773	9,333,871	10,560,068	11,688,927
Inspection and Regulation	47,809	53,422	60,107	60,742	55,210
Education	4,333,786	4,713,730	5,296,593	5,606,652	5,365,372
Protection and Safety	1,025,226	1,129,320	1,258,908	1,339,292	1,350,340
Transportation	72	76	1,188	76	70
Natural Resources	54,438	66,892	28,610	117,947	87,506
Capital Outlay	40,299	85,736	187,812	59,983	50,665
Debt Service	68,167	57,200	94,739	87,740	107,246
TOTAL EXPENDITURES	**$15,569,604**	**$16,985,072**	**$18,647,261**	**$20,452,911**	**$21,135,389**
Revenues Over (Under) Expenditures	**$763,666**	**$1,591,703**	**$661,804**	**($844,793)**	**($1,623,802)**
OTHER FINANCING SOURCES (USES)					
Operating transfers in (out) (5)	(464,045)	(639,510)	(1,088,396)	(719,830)	(311,227)
Other (6)	264,143	3,543	83,553	3,146	595,129
TOTAL OTHER FINANCING SOURCES (USES)	**(199,902)**	**(635,967)**	**(1,004,843)**	**(716,684)**	**283,902**
Net Changes in Fund Balances	**563,764**	**955,736**	**(343,039)**	**(1,561,477)**	**(1,339,900)**
Beginning Fund Balances, as restated	746,638	1,310,402	2,266,138	1,923,099	361,622
Ending Fund Balances	**$1,310,402**	**$2,266,138**	**$1,923,099**	**$ 361,622**	**($978,278)**

(1) Other taxes consist primarily of insurance premium tax, estate tax and luxury tax.
(2) Primarily consists of federal financial grants and assistance as reported in the General Fund for purposes of GAAP financial reporting.
(3) Earnings on investments in 2006 and 2007 reflect larger cash balances available to invest and generally higher market interest rates.
(4) Includes intergovernmental revenue sharing.
(5) In 2007, net operating transfers (out) increased primarily due to an increase in transfers out to the State Universities of approximately $119 million and a transfer out to the State Department of Transportation of $245 million for the Statewide Transportation Acceleration Needs.
(6) In 2005 and 2009, the Arizona School Facilities Board issued $238 million and $580 million, respectively, of certificates of participation to lease-finance the repair and construction of Arizona schools not owned by the State.

Source: State of Arizona Comprehensive Annual Financial Reports.

The following tables present, **on a cash basis**, the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2004-05 through 2008-09. The **unaudited** financial information in this table was taken from the State of Arizona Annual Financial Report (AFR) for the fiscal years ended June 30, 2005 through June 30, 2009. The information in the table has not been separately audited. The AFR is prepared on a cash basis in accordance with the laws of the State and does not include audited data. The General Fund as presented in the AFR does not include certain federal grants and other financial activity that is included in the General Fund as defined on a GAAP basis in the table above, and as presented in the audited financial statements or Comprehensive Annual Financial Report of the State, a significant portion of which is included in APPENDIX B.

State General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2005-2009 – Cash Basis – BASED ON UNAUDITED INFORMATION

	Actual for Fiscal Year Ended June 30 (expressed in thousands)				
REVENUES:	2005	2006	2007	2008	2009
Taxes:					
Sales and Use	$3,608,678	$3,954,591	$ 4,538,810	$ 4,434,845	$ 3,837,688
Income	3,172,157	4,089,779	4,090,276	3,506,425	2,432,575
Property	29,408	29,117	28,433	22,910	20,589
Luxury	64,660	66,732	65,809	61,037	57,878
Insurance Premium	358,189	373,704	398,450	407,712	411,049
Motor Vehicle License (1)	629	587	686	915	59,194
Estate	31,236	11,684	(551)	320	210
Other Taxes	848	798	734	443	860
Total Tax Revenues	$7,265,805	$8,526,992	$9,122,647	$8,434,607	$6,820,043
Non-Tax Revenues:					
Lottery Proceeds	$ 36,062	$ 45,778	$ 52,922	$ 47,420	$ 33,008
Disproportionate Share, Net	112,005	108,004	113,127	72,189	67,687
State & Local Governments (2)	0	0	0	0	27,963
Licenses, Fees, Sales and Permits	277,792	90,692	102,663	102,070	91,219
Other Miscellaneous (3)	0	46,398	56,008	118,741	397,830
Interest Earnings	32,659	74,320	104,756	95,161	19,867
Total Non-Tax Revenues	$ 458,518	$ 365,192	$ 429,476	$ 435,581	$ 637,574
TOTAL REVENUES	$7,724,323	$8,892,184	$9,552,123	$8,870,188	$7,457,617
EXPENDITURES:					
General Government	$ 626,707	$ 503,623	$ 842,625	$ 600,637	$ 516,704
Health and Welfare	1,884,711	2,156,671	2,480,757	2,688,720	2,443,607
Inspection and Regulation	40,370	42,924	46,163	48,489	41,762
Education	4,225,974	4,416,348	5,713,132	5,651,242	4,804,350
Protection and Safety	744,450	841,877	1,074,694	1,118,168	1,066,526
Transportation	72	76	1,188	76	70
Natural Resources	56,030	72,498	80,829	77,852	53,650
TOTAL EXPENDITURES	$7,578,314	$8,034,017	$10,239,388	$10,185,184	$ 8,926,669
REVENUES OVER (UNDER) EXPENDITURES	$ 146,009	$ 858,167	$ (687,265)	$ (1,314,996)	$(1,469,052)
OTHER FINANCING SOURCES (USES):					
General Operating Fund					
Transfers In - Treasurer's Warrant Notes (4)	$ -	$ -	$ -	$ -	$ 2,146,439
Transfers In - From Budget Stabilization Fund	8,000	0	0	560,208	150,000
Transfers In (5)	146,931	44,822	90,748	322,122	770,220
Transfers Out - Treasurer's Warrant Notes (4)	0		0	0	(2,146,439)
Transfers Out - To Budget Stabilization Fund	0	(480,958)	(9,809)	0	0
Budget Stabilization Fund (6)					
Interest Earnings	323	9,270	29,069	33,889	5,536
Transfers In - From General Fund	156,491	480,958	9,809	0	19
Transfers Out - Alternative Fuel Recovery	(1,486)	(81)	(7)	0	0
Transfers Out - To General Operating Fund	(8,000)	0	0	(560,208)	(150,000)
TOTAL OTHER FINANCING SOURCES (USES)	$ 302,259	$ 54,011	$ 119,810	$ 356,011	$ 775,775
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ 448,268	$ 912,178	$ (567,455)	$ (958,985)	$ (693,277)
FUND BALANCE, PRIOR YEAR	412,612	860,880	1,773,058	1,196,371	237,386
PRIOR YEAR RESTATEMENT	0	0	(9,232)	0	0
FUND BALANCE, CURRENT YEAR	$ 860,880	$ 1,773,058	$ 1,196,371	$ 237,386	$ (455,891)

(1) Motor Vehicle License revenue increased in fiscal year 2008-09 due to legislation that redirected the fees from the State Highway Fund to the General Fund.

(2) Revenues from State and Local Governments in fiscal year 2008-09 were redirected from the Budget Neutrality Compliance Fund to the General Fund (previously a reduction of Health and Welfare costs).

(3) Other Miscellaneous revenue in fiscal year 2008-09 increased due to a repayment of prior years' General Fund appropriations to the ASFB totaling $344 million.

(4) Treasurer's Warrant Notes (TWNs) may be issued by the State Treasurer if no monies are available for payment of warrants or electronic funds transfer vouchers of the Department presented to the State Treasurer. The State Treasurer may use a combination of General Fund cash plus other non-invested monies to determine the operating cash available for payment of warrants. When such amounts are insufficient, the State Treasurer begins issuing TWNs. The TWNs are repaid the next business day from the first available revenues. See "CASH MANAGEMENT – General – Warrant Notes."

(5) Transfers In increased in fiscal year 2008-09 due to transfers of monies to the State General Fund from other State funds.

(6) The amount of cash transferred to or from the BSF and the General Fund is established by specific legislation or statutory formula. No operating expenditures may be made directly from the BSF.

Source: State of Arizona Annual Financial Report.

State General Fund Balance
Fiscal Years 2005-2009 – Cash Basis – BASED ON UNAUDITED INFORMATION

	Actual for Fiscal Year Ended June 30 (expressed in thousands)				
FUND BALANCE:	**2005**	**2006**	**2007**	**2008**	**2009**
Restricted					
Budget Stabilization Fund (BSF) (1)	$160,873	$ 651,020	$ 673,531	$147,212	$ 2,767
School Accountability Account (2)	13,398	16,778	14,425	20,666	21,832
Reserved for:					
Continuing Appropriations	47,028	58,370	118,457	68,276	0
Continuing Appropriations – Tobacco Settlement Account	261	160	0	0	0
Revolving Funds	331	270	243	232	223
Unreserved	638,989	1,046,460	389,715	1,000	(480,713)
TOTAL FUND BALANCE	**$860,880**	**$1,773,058**	**$1,196,371**	**$237,386**	**($455,891)**

(1) See "STATE FINANCES – Budget Reserves – Budget Stabilization Fund."
(2) Required by one of the laws referred to under "THE STATE BUDGET AND APPROPRIATIONS PROCESS – Constraints on the Budget Process."

Source: State of Arizona Annual Financial Report.

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RECENT STATE FISCAL CONDITION

Fiscal Years Prior to 2007-08

Following a half decade of strong economic and revenue growth in the late 1990s and into 2000, during fiscal year 2001–02, as the State and national economies fell into a recession and the stock markets dropped significantly, the State experienced a significant decrease in revenues compared to the prior year largely due to reduced personal income taxes from stock option and capital gains activity. During the three fiscal years between 2001-02 and 2003-04, the State encountered severe budgetary difficulties because of reduced revenues and failure to make equivalent reductions in expenditures, resulting in successive budget deficits. The budgets for these years included substantial reliance on one-time measures including funding deferrals, debt financings, transfers from non-General Fund monies and use of BSF monies

The State's economy rebounded strongly during the 2004-05, 2005-06 and 2006-07 fiscal years, with the result that General Fund revenues were substantially higher in each year than had been projected at the start of the year. This allowed the budgets in these years to end with substantial positive balances (although the positive balance declined from approximately $1.05 billion at the end of fiscal year 2005-06 to approximately $378 million at the end of fiscal year 2006-07).

Initial 2008 Budget Act

In June 2007, the Legislature passed and the Governor signed into law the Initial 2008 Budget Act for the State. Based on revenue collections early in the 2007-08 fiscal year, it became apparent that actual revenue collections were falling short of those forecasted for purposes of this budget. Based on this information, the OSPB revised its forecast of General Fund revenues in September 2007. Subsequently, given economic conditions in Arizona and across the country, revenue collections continued to fall below forecast. As a result, the OSPB further revised its forecasted revenues for fiscal year 2007-08 in February 2008.

The table below provides the OSPB revenue forecasts for fiscal year 2007-08 as well as the final actual revenues by major revenue category:

	Fiscal Year 2007-08 Revenues ($ in millions)			
Revenue Category	Original June 2007 Budget Forecast	September 2007 Revised Budget Forecast	February 2008 Revised Budget Forecast	Actual Revenues
Individual Income Tax	$3,972.0	$3,746.1	$3,635.6	$3,406.5
Corporate Income Tax	995.4	935.5	851.5	784.5
Transaction Privilege Tax	4,899.9	4,686.1	4,519.9	4,353.6
Other Taxes and Revenues	848.2	873.9	894.0	929.6
Urban Revenue Sharing Transfers (1)	(684.5)	(684.5)	(684.5)	(684.5)
Total Revenues	$10,031.0	$9,557.1	$9,216.5	$8,789.7

(1) Paid to State municipalities based on statutory formula.

As of the February 2008 revised budget forecast by the OSPB, the budget shortfall estimated for the State's General Fund stood at $1.15 billion. This estimated shortfall compared to the originally adopted budget reflected the following:

- An actual fiscal year 2006-07 ending balance that was $151 million lower than forecast in the adopted budget for fiscal year 2007-08.
- Reduced tax collections of $814.5 million as reflected in the table above.

- Estimated supplemental appropriations required for the fiscal year 2007-08 of $99 million, primarily to address increased case load needs in various social services programs.
- Expected revertments to the General Fund of unexpended appropriations for fiscal year 2007-08 which were estimated to be $50 million lower than reflected in the adopted budget.
- Estimated administrative adjustments (i.e. General Fund monies that are held in reserve from one fiscal year to pay expenses accrued in that fiscal year but that are not actually paid until the next fiscal year) for the fiscal year 2007-08 that were estimated to be $32.5 million higher than budgeted.
- An increase in the projected General Fund ending balance for fiscal year 2007-08 by $8.0 million.

Amended 2008 Budget Act

As actual revenues began to fall short of budgeted revenues in the fall of 2007, the Governor asked all State agencies to take immediate actions to reduce spending and control costs. At the same time, the OSPB began working with the Governor and the directors of various State agencies to develop a budget management plan to address the projected budgetary shortfall. The initial budget management plan that was developed and proposed by the Governor in September 2007 was designed to address the then forecasted shortfall of $600 million. That plan called for using a balanced approach of expenditure reductions and fund balance revertments to the General Fund of $100 million, lease-purchase financing by the School Facilities Board of $300 million to meet the State's capital funding obligations to K-12 schools and a $200 million transfer from the State's Budget Stabilization Fund.

In late February 2008, the OSPB further revised its projected budget shortfall for fiscal year 2007-08 to reflect continued weakness in the national and state economies, and in the State's revenue collections. The revised forecast of OSPB at that time projected a budget deficit of approximately $1.21 billion. To address the projected shortfall, the Legislature adopted and the Governor signed the Amended 2008 Budget Act that enacted the proposals listed below to address the State's anticipated budget shortfall for fiscal year 2007-08. Collectively, these measures totaled $1.37 billion, an amount in excess of the $1.21 billion shortfall projected by OSPB for the fiscal year.

- The transfer of $487 million from the BSF to the General Fund.
- The implementation of $611 million of budgetary savings through expense reductions and transfers to the General Fund of unspent balances in non-General Fund accounts and funds.
- The deferral of $272 million in payments by the State to fund K-12 education from fiscal year 2007-08 to fiscal year 2008-09.

Based on the Amended 2008 Budget Act, the OSPB forecast the State would end the fiscal year with a cash balance of approximately $158 million. Over the remainder of the fiscal year, State revenue collections continued to decrease such that the actual unreserved General Fund balance diminished to $1.0 million.

Initial 2009 Budget Act

The Governor initially released the 2008-09 Governor's Budget in January 2008. In February 2008, the OSPB released updated revenue forecasts for fiscal year 2008-09. The update reflected forecasted revenue growth of 3.9 percent, or $362.6 million, over the OSPB's revised projections for fiscal year 2007-08 that were prepared at that same time. The table below provides the forecasted and actual data by major revenue category:

Forecasted and Actual Revenues (in millions)			
Revenue Category	OSPB Fiscal Year 2007-08 Revised Forecast	OSPB Fiscal Year 2008-09 Forecast	Fiscal Year2008-09 Actual Revenues
Individual Income Tax	$3,635.6	$3,784.4	$2,568.1
Corporate Income Tax	851.5	877.9	592.2
Transaction Privilege Tax	4519.9	4,752.9	3,756.4
Other Taxes and Revenues	894.0	891.6	776.6

Urban Revenue Sharing Transfers (1)	(684.5)	(727.7)	(727.7)
Total Revenues	$9,216.5	$9,579.1	$6,965.6

(1) Paid to State municipalities based on statutory formula.

Based on the updated revenue forecast as of February 2008, the OSPB estimated a budgetary shortfall for fiscal year 2008-09 of approximately $1.7 billion. In June 2008, the Legislature and the Governor approved the Initial 2009 Budget Act that reflected $1.94 billion of budget solutions, including:

- $324 million in transfers of non-General Fund monies to the General Fund;
- $106 million in transfers from the Highway User Revenue Fund and the State Highway Fund to the General Fund to fund State Highway Patrol costs;
- $330 million in deferred payments from fiscal year 2008-09 to fiscal year 2009-10 for K-12 school districts in the State (increasing the total amount deferred from fiscal year 2008-09 to $602 million);
- $20 million in transfers from the BSF to the General Fund;
- $341 million in net reductions to the proposed General Fund budgets for various State agencies;
- $66 million in reduced funding to the ASFB for building renewal for K-12 school districts;
- $187 million in reduced appropriations due to imposing a moratorium on new construction for K-12 school districts by the ASFB;
- $527 million in proceeds from debt financing portions of fiscal year 2006-07, fiscal year 2007-08, and fiscal year 2008-09 ASFB construction for K-12 school districts; and
- $50 million as a result of counting non-lapsing monies toward the ending unrestricted General Fund balance.

Based on the Initial 2009 Budget Act, the fiscal year 2008-09 General Fund cash balance was projected by the OSPB to be $74 million.

Amended 2009 Budget Acts

Subsequent to the passage of the Initial 2009 Budget Act, revenue collections continued to deteriorate as economic conditions worsened. By January 2009, the ending General Fund balance for fiscal year 2008-09 was projected by the OSPB to reflect a shortfall of $1.58 billion due primarily to lower than-expected economic growth. In February 2009, the Legislature and the Governor addressed this projected shortfall by adopting $1.69 billion in revenue increases and spending reductions, resulting in a projected $106 million ending balance in the General Fund.

The main components of this budgetary enactment were as follows:

- $646 million in total one-time revenues, consisting of:
    - $463 million in transfers of non-General Fund monies to the General Fund;
    - $130 million in transfers from the BSF to the General Fund; and
    - $53 million in other revenue changes, primarily reflecting an accounting shift of $46 million from dedicated revenues to the General Fund.;
- $552 million in reductions to various State agency budgets;
- $11 million in reductions to capital expenditures;
- $5 million in reversions of prior-year capital appropriations;
- $23 million through elimination of a scheduled deposit into the Arizona 21st Century Fund; and
- $500 million in temporary federal assistance from increased federal Medicaid matching monies pursuant to the ARRA.

Following this budgetary legislation, an amended 2009 Budget Act was enacted that increased spending and decreased revenues by an additional $56 million, resulting in a projected $50 million ending fund balance in the General Fund. At that time, it also became clear that the State's revenue collections were continuing to weaken, reflecting the worsened economic conditions nationally and in Arizona, such that the OSPB's estimate of the fiscal year 2008-09 budget shortfall grew to $650 million. To address the continued decline, in May 2009, the Legislature approved another Amended 2009 Budget Act with $650 million of budgetary solutions, including:

- $400 million of additional deferrals in payments from fiscal year 2008-09 to fiscal year 2009-10, of which $300 million affected K-12 school districts in the State and $100 million affected State universities; and
- $250 million in reduced appropriations to the General Fund budget for K-12 school districts (which was to be replaced with Federal stimulus money).

Based on the passage of this budgetary measure, the OSPB projected a fiscal year 2008-09 ending General Fund balance for fiscal year 2008-09 of $0.

Subsequent to the passage of the May budget legislation, State revenue collections continued to fall short of projections. Ultimately the State ended the fiscal year with a negative unreserved General Fund balance of approximately $480.7 million due to worse than expected revenue collections and an unexpected delay in receiving Federal stimulus monies to offset State General Fund spending. The Arizona Constitution permits the State to address any year-end shortfall in the next fiscal year. As a result, the fiscal year 2008-09 shortfall was expected to be addressed during fiscal year 2009-10.

FISCAL YEAR 2009-10 AND 2010-11 BUDGETS

Initial 2010 Budget Act

Based on initial projections of revenues and expenditures, the fiscal year 2009-10 budget was projected by OSPB to have a $3.15 billion deficit. Given the difficult economic and budgetary situation facing the State, the Initial 2010 Budget Act was one of the latest ever enacted, with passage by the Legislature of the first of a series of acts on July 1, 2009.

The Initial 2010 Budget Act reflected the following provisions:

- $228 million in transfers of non-General Fund monies to the General Fund;
- $816 million in temporary federal assistance monies associated with Medicaid programs;
- $472 million in temporary federal assistance monies from fiscal stabilization fund monies provided to the states by the federal government;
- $735.4 million in borrowed proceeds through the sale and subsequent lease-back of various State assets (accomplished through the sale of the Series 2010A Certificates);
- $100 million to be derived from the possible sale of concession rights to operate various State correctional facilities;
- $111 million in net reductions to various State agency budgets; and
- $250 million in reduced appropriations for K-12 school districts to be replaced by local property tax revenues.

The Initial 2010 Budget Act was projected by OSPB to include approximately $8.12 billion in estimated revenues and transfers, and approximately $8.67 billion in estimated expenditures for the fiscal year, resulting in a projected year end General Fund deficit of $450.6 million. In enacting the Initial 2010 Budget Act, the Legislature and Governor realized that additional modification to the budget would be required to bring the projected budget into balance for the fiscal year. The Initial 2010 Budget Act was enacted, however, to ensure that the State would have a budget in place by July 1 to ensure the continued operation of State government and the timely payment of any required obligations of the State.

Amended 2010 Budget Acts

After the enactment of the Initial 2010 Budget Act, State revenue collections further deteriorated and together with lower than expected budget savings being realized on certain previously enacted measures, the budget deficit widened. The Governor and the Legislature subsequently took action in three special sessions occurring in November and December of 2009 and March of 2010, to further address the projected budget shortfall. Overall, approximately $1.9 billion of budget solutions were provided by the Amended 2010 Budget Acts, including:

- $857 million in net reductions to appropriations from the General Fund for various State agency budgets (including deferring certain payments by the State to K-12 education, the State's universities and certain social welfare programs).
- $136 million in transfers of various non-General Fund monies to the General Fund (including both transfers of surplus fund balances and reductions to various non-General Fund State agency budgets and transfer of such amounts to the General Fund)
- $132 million in increased revenues to the State, primarily from the accelerated sale of various unclaimed property held by the State, reductions in State funding to counties in Arizona, a reduction in the threshold for estimated transaction privilege tax payments, and increases in the amount of revenues deposited to the General Fund from the State's Lottery.
- $450 million in proceeds from issuing State lottery revenue bonds; and
- $300 million in proceeds from execution and delivery of the Series 2010B Certificates.

As a result of passage of the Amended 2010 Budget Acts, the State's ending General Fund balance for fiscal year 2009-10 is estimated to reflect a surplus of approximately $48.4 million.

The table below contains a summary of certain elements of the General Fund budget for fiscal year 2009-10, as of the Initial 2010 Budget Act and the Amended 2010 Budget Act.

Fiscal Year 2009-10 Estimated General Fund Budget Summary
(Dollars in Millions)

	As of Initial 2010 Budget Act (July 1, 2009)	As of Amended 2010 Budget Acts (March 15, 2010)
Prior Year Resources Available	**$ 0.0**	**$ (480.7)**
Revenues and Transfers	8,188.2	7,864.8
Expenditures	8,671.6	7816.4
Fund Balance	(450.6)	48.4
Budget Stabilization Fund	2.7	0.0
Total Available Reserve	0.0	0.0

Source: OSPB

Initial 2011 Budget Act

On March 18, 2010, the Governor signed the Initial 2011 Budget Act, which is designed to address not only the projected budget deficits but a portion of the ongoing structural deficit in the State's budget. The Initial 2011 Budget Act reduces State agency budgets, relies on debt management strategies, and places several initiatives before the voters to help close the deficit. Specifically, the budget plan:

- Enacts permanent, ongoing reductions of $1.3 billion in General Fund budget appropriations to State agencies;

- Transfers $180.3 million of various Non-General Fund monies to the State General Fund on a one-time basis;
- Provides an estimated $98 million in increased revenues to the General Fund from decreasing funding to Arizona counties, increasing the amount of State lottery revenues being deposited in the General Fund from the State' Lottery and enacting other fee and revenue generation measures;.
- Placed a measure on the ballot for May 18, 2010, to temporarily increase the State sales tax by 1 percent for three years (this measure was approved at the election);
- Places a ballot measure before the voters in November 2010 to eliminate the Early Childhood Education and Development Board and utilize its voter-protected fund source for other programs totaling $385 million; and
- Places a ballot referendum before the voters in November 2010 to transfer an estimated $123.5 million of tax revenues currently allocated by voter approval to certain development related measures in Arizona to the General Fund.

The Initial 2011 Budget Act addresses a projected shortfall of $3.1 billion, but is contingent on voter approval of two measures in November 2010. As a result the fiscal year 2010-11 budget is projected to be balanced if voters pass the proposed budget measures in the November election, but their failure at the ballot would create an estimated $508.5 million shortfall in the budget.

Budget Risks

The Amended 2010 Budget Acts and the Initial 2011 Budget Act are based on a variety of assumptions. In the event actual circumstances or conditions differ from those assumptions, the State's financial condition could be materially adversely impacted. The potential financial implications of one or more of the following risks could adversely affect the State's fiscal condition for both fiscal years 2009-10 and 2010-11. There can be no assurance that the financial condition of the State will not be further materially adversely affected by actual conditions or circumstances, including but not limited to those described below.

Budget risks include, but are not limited to, the following:

- The underlying economic forecast and revenue projections on which the Amended 2010 Budget Acts and the Initial 2011 Budget Act are based were prepared in March, 2010. The Amended 2010 Budget Acts assume ongoing revenues of $6.3 billion for fiscal year 2009-10, and the Initial 2011 Budget Act assumes ongoing revenues of $6.9 billion. However, there can be no assurance that revenues will not be significantly less than projected in either the Amended 2010 Budget Acts or in the Initial 2011 Budget Act.

- Delays in or inability of the State to implement budget solutions, or increased costs, as a result of current or future litigation.

- Current expenditure levels for the State's Medicaid population are mandated by both federal law and voter initiative. The Initial 2011 Budget Act eliminated the State CHIP program and changed eligibility levels for the State Medicaid program. These changes will save the State General Fund approximately $395 million. Subsequent to the passage of the Initial 2011 Budget Act, the Federal health-care reform eliminated state's ability to change eligibility for CHIP and Medicaid, forcing Arizona to restore these populations. In restoring these populations, the State Legislature assumed the federal government would extend temporary federal assistance monies for an additional six months. This extension would provide Arizona sufficient funds (approximately $410 million) to fund the restored populations. If the federal government does not extend, its federal assistance monies, the State's fiscal year 2010-11 budget will be out of balance by approximately $395 million.

Future Deficits

The OSPB has projected that, using expenditure obligations under existing law and various assumptions concerning revenues in future years, the State would, in the absence of taking additional steps to balance its budget, face an "operating deficit" (expenditures exceeding revenues in the same fiscal year) of $880 million in fiscal year 2011-12, $653 million in 2012-13, $1.7 billion in 2013-14 and $1.5 billion in 2014-15.

Revenue and Expenditure Assumptions

The development of the OSPB's forecast for the major General Fund revenues begins with a forecast of national economic activity prepared by an independent economic forecasting firm. The OSPB adjusts the national forecast based on its economic outlook. The national economic forecast is used to develop a forecast of similar indicators for Arizona activity.

After finalizing the forecasts of major national and Arizona economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by OSPB. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results. The forecast is updated monthly and released with the Governor's Budget and periodically thereafter.

The table below presents the OSPB's budget basis statements of major General Fund revenue sources and expenditures for fiscal years 2008-09, 2009-10 and 2010-11. The amounts shown for fiscal years 2009-10 and 2010-11 are as projected by the OSPB and as such are "forward looking" and should be considered with an abundance of caution.

General Fund Revenue Sources
Fiscal Years 2008-09 Through 2010-11
(Dollars in Millions)

	Revenues Fiscal Years					
Source	**2008-09 Initial(a)**	**2008-09 Amended(b)**	**2008-09 Actual**	**2009-10 Initial(c)**	**2009-10 Current Amended Estimate(d)**	**2010-11 Adopted(e)**
Personal Income Tax	$3,614.9	$2,645.7	$2,568.1	$2,576.6	$2,306.5	$2,414.5
Sales and Use Tax	4,643.6	3,807.3	3,756.4	3,800.3	3,481.0	3,617.5
Corporate Income Tax	841.2	580.9	592.2	596.9	426.0	447.0
All Other	235.7	193.7	152.4	175.6	111.0	290.0
Financing Obligations	344.0	344.0	344.0	735.4	735.4	0.0
Fund Transfers	280.9	720.9	709.6	236.2	335.3	100.0
Prison Concession Payments (f)	0.0	0.0	0.0	100.0	0.0	0.0
Transfer from BSF (g)	20.0	150.0	150.0	0.0	0.0	0.0
Total Revenues and Transfers	**$9,980.3**	**$8,442.5**	**$8,272.7**	**$8,221.0**	**$7,395.2**	**$6,869.0**

(a) Initial 2009 Budget Act; June, 2008.
(b) Amended 2009 Budget Act; February, 2009.
(c) Initial 2010 Budget Act; July, 2009.
(d) Amended 2010 Budget Acts; March, 2010.
(e) Initial 2011 Budget Act.
(f) Represents payments the State might have received through entering into concession agreements with private sector companies to operate certain State correctional facilities. No such agreements were entered into by the State.
(g) Represents transfers from the Budget Stabilization Fund.
Source: OSPB

As of December 2009, the OSPB used the following estimates for Arizona's economic performance in calendar years 2009 and 2010, which are currently being used in predicting revenues and expenditures for fiscal years 2009-10 and 2010-11. These estimates are as projected by the OSPB and as such are "forward looking" and should be considered with an abundance of caution.

Estimates of State's Economic Performance

	As of Amended 2010 Budget Acts	
	For Calendar Year 2009	**For Calendar Year 2010**
Non-Farm Wage and Salary Employment	2,437,800	2,420,400
Percent Change	(6.82%)	(0.85%)
Personal Income (Billions)	$217.3	$239.0
Percent Change	(2.65%)	1.0%
Single Family Housing Permits (Thousands)	12.1	14.5
Percent Change	(40.0%)	20.0%

CASH MANAGEMENT

Payment Mechanisms

General. Payment of claims against the State is made in accordance with State law and procedures established by the Director of the Department. In general, the Department issues warrants or electronic funds transfer vouchers (collectively, "Warrants") which are then presented to the State Treasurer for payment. As a matter of practice, actual payments of claims are processed through the banking system, settling through a bank (or banks) serving as the State's servicing and depository bank through contractual arrangements with the State Treasurer.

State law provides specific flexibility to meet cash flow requirements of the State's General Fund due to timing discrepancies between revenues and expenditures. Payments occur on a regular and daily basis and do not coincide in time or amounts with the receipt of monies to cover those expenditures. In fact, the majority of the State's General Fund revenues are received in the latter part of the fiscal year while expenditures occur more evenly throughout the fiscal year. Some expenditures by the State are made from funds other than monies in the State's General Fund and there are timing delays between when monies are received by the State and when they are allocated and accounted to the various funds or accounts, including the State's General Fund. Thus, during a fiscal year it is impractical to delay the processing of payment items and determine aggregate available fund balances until all payments can be made solely from the fund or account ultimately responsible for the payments. The result is that at any given time Warrants from the State's General Fund may be paid, as allowed by law, with monies from other funds or accounts, and the State's General Fund may in essence be obligated to other State funds and accounts. Generally, the total amount of these other funds and accounts that have been used to pay Warrants drawn on the General Fund has averaged approximately $1.5 billion between May 2008 and April 2010.

Warrant Notes. Pursuant to State statutes, if no monies are available for payment of Warrants presented to the State Treasurer for payment, the State Treasurer in lieu of payment is to issue and exchange or sell a treasurer's warrant note or notes ("Warrant Notes") in the amount or amounts equal to the sum of the face value of the Warrants presented for payment. Warrant Notes are to be issued only in lieu of payment of Warrants or in exchange for or to redeem previously issued Warrant Notes. Warrant Notes may not be sold at a price below face value, have a maturity date set by the State Treasurer not longer than 90 days and bear interest at a rate set by the Treasurer not exceeding the maximum rate established by the State Loan Commission. (The State Loan Commission members are the Governor, the State Treasurer and the Director of the Department.) Warrant Notes are required by law to be redeemed in the order of their issuance. Although, by law, Warrant Notes may be issued with stated maturities of up to 90 days, in practice they are issued daily as needed and redeemed on the next business day.

State statutes provide that (a) at any time Warrant Notes have been issued and remain outstanding, all monies that would otherwise be paid into the State General Fund, except for amounts sufficient to pay the salaries of constitutional officers of the State, must be deposited into the "Note Redemption Fund"; (b) all monies in the Note Redemption Fund are to be used exclusively to pay the principal of and interest on Warrant Notes and related fees and charges; (c) all monies in the Note Redemption Fund are appropriated to the State Treasurer to pay principal of and interest on Warrant Notes and related fees and charges as a continuing appropriation up to the sum of the face values of the Warrant Notes issued plus an additional one-fifth of that sum for payment of interest on Warrant Notes and related fees and charges; (d) all amounts deposited in the Note Redemption Fund are pledged and held in trust for the benefit of the holders of Warrant Notes for the exclusive payment of the principal of and interest on outstanding Warrant Notes and related fees and charges; and (e) all monies so pledged and received by the State Treasurer to be placed in the Note Redemption Fund are immediately deemed assigned to and held in trust for the holders of outstanding Warrant Notes. As a result of these statutory provisions, so long as any Warrant Notes remain outstanding, owners of Warrant Notes as a group have first claim on monies received by the State Treasurer for the State General Fund, and because Warrant Notes are required to be paid in the order issued, the priority of claim for any Warrant Note is based on the date of the Warrant expenditure the Warrant Note represents.

Beginning in April 2009, the State Treasurer began issuing Warrant Notes which were purchased as investments of monies on deposit in pooled investment funds held by the State Treasurer that contain monies of various State entities. Under investment policies established by the State Board of Investment, the Treasurer may invest up to fifty percent of the total in this investment pool in Warrant Notes. This pool recently had average total deposits of approximately $1.1 billion. Under the currently established investment policies, the State Treasurer has had available approximately $550 million of these pooled investment funds to invest in Warrant Notes. In addition, in November 2009, the State Loan Commission approved and the State Treasurer entered into a warrant note purchase agreement with Bank of America, N.A., pursuant to which the bank agreed to purchase and hold at any one time up to $700 million principal amount of Warrant Notes. Upon the establishment of this agreement, Bank of America, N.A. became the holder of Warrant Notes for the first $700 million in outstanding Warrant Notes. When the cash needs of the State exceed $700 million, the State Treasurer uses the pooled investment funds discussed above to purchase additional Warrant Notes, subject to the investment policy limitation for such pooled investment funds as noted above. The Warrant Note purchase agreement with Bank of America, N.A. is set to expire on June 30, 2010, unless extended. The State is in active negotiations with Bank of America to extend the agreement through June 30, 2011.

As of May 20, 2010, $497 million principal amount of Warrant Notes were outstanding, all of which were held by Bank of America, N.A. The cash on deposit with the State servicing bank was $400 million on that date. Customarily, the State maintains a $40 million cash balance with the State servicing bank. The amount actually needed to cover outstanding warrants presented for payment on that date was only $137 million, indicating extra available cash in the amount of $360 million. On a comparative basis, on December 28, 2009 just prior to the issuance of the 2010A Certificates, there was $606.8 million principal amount of Warrant Notes outstanding with $40 million in cash on deposit with the State servicing bank. The State needed the full $606.8 million to cover outstanding warrants presented for payment on December 28, 2009.

Since the Warrant Notes are issued daily according to the cash needs of the State, the Warrant Notes are redeemed on the subsequent business day along with the applicable interest. Consistent with State law, the source for the repayment is a combination of the State's General Fund revenues and newly issued Warrant Notes.

Cash Management Tools

The State has employed various cash management measures during certain fiscal years; all of the following techniques were used during fiscal year 2008-09 and have been, or are planned to be, used during fiscal year 2009-10:

- The State has delayed certain types of disbursements from the General Fund.
- The State has deferred distributions of General Fund monies to certain State agencies and other political subdivisions from one fiscal year to another.
- Up to 50 percent of special agency funds on deposit in an investment pool held by the State Treasurer have been used to meet ongoing cash flow requirements (as described above under "Warrant Notes").

One fund from which monies may be used to provide additional cash resources to the General Fund is the BSF, a reserve fund established in Arizona law. However, there are currently no monies available in the BSF.

In addition, from time to time, the Legislature changes by statute the due date for various payments, including those owed to public schools, universities and local governments, until the following fiscal year, in order to more closely align the State's revenues with its expenditures. This technique has been used several times, most recently through the enactment of budget bills in fiscal years 2007-08, 2008-09 and 2009-10. One effect of these deferrals has been to reduce the State's need to take other actions to bridge its cash flow deficit during the fiscal year.

The State historically utilizes a variety of cash management best practices in the course of business. State agencies are encouraged to take advantage of prompt pay discounts when appropriate and are required to pay bills timely. State agencies typically schedule many large payments and implement procedures to ensure payment on the contractual or statutory due date. In addition to these normal policies, during the current fiscal year the State has implemented additional centralized control to require the scheduling of all payments in advance to help provide information regarding upcoming cash needs.

Cash Management in Fiscal Year 2008-09

For most of fiscal year 2008-09 the State was able to manage its cash flow using the typical methods it had employed for many years. However, on April 15, 2009, the State Treasurer had to issue a Warrant Note in the amount of \$339.9 million. Between April 15th and June 30th, the end of the 2008-09 fiscal year, the Treasurer issued Warrant Notes on seventeen days. The Treasurer used an internal investment pool, made up of State agency invested funds, to purchase these Warrant Notes. These Warrant Notes ranged from a low of \$5.2 million to a high of \$339.9 million during this time frame. The last Warrant Note was issued on May 26th and redeemed on May 27th. There were no Warrant Notes outstanding at the end of the 2008-09 fiscal year.

Cash Management in Fiscal Year 2009-10

Between July 1, 2009 and May 20, 2010 the State Treasurer has issued Warrant Notes on two hundred and twelve of the two hundred and twenty-four business days of fiscal year 2009-10. These Warrant Notes have ranged from a low of \$7.0 to \$904.9 million. The State anticipates that Warrant Notes will be issued, in varying amounts, throughout most of the remainder of fiscal year 2009-2010, but estimates the State will end the fiscal year with a positive cash balance approaching \$1.0 billion. With the combined amounts available to the State Treasurer from internal State funds and the warrant note purchase agreement with Bank of America, N.A. (currently estimated to be \$1.2 to \$1.3 billion in total), coupled with the Department's anticipation that there will be a significantly lesser need to rely on Warrant Notes during the last six weeks of the fiscal year, the State fully expects to meet its cash needs for the remainder of the fiscal year.

The State’s fiscal officers are continuing to closely monitor developments which may impact the State’s cash management requirements, including monthly cash receipts and further analysis of all legislation enacted to date. If the State Loan Commission determines that additional external borrowing would be advisable, the State could seek to obtain additional borrowing capacity from banks or other financial institutions. There can be no assurance that any such additional borrowing can be obtained in the future.

Investment of Monies in State's General Fund

Under Title 35, Chapter 2 of the Arizona Revised Statutes, amounts deposited into the State's General Fund are held by the State Treasurer and may presently be invested in any of the following items:

1. Obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities;

2. Collateralized repurchase agreements purchased from securities dealers that make markets in those securities listed in paragraph 1;

3. Bonds or other evidences of indebtedness of the State or any of the counties or incorporated cities, towns or duly organized school districts;

4. Commercial paper whose issuer is rated in one of the two highest rating categories for short-term obligations by any two nationally recognized statistical rating organizations;

5. Bills of exchange or time drafts known as bankers acceptances which are drawn on and accepted by a commercial bank;

6. Negotiable certificates of deposit issued by a nationally or state chartered bank or savings and loan association;

7. Bonds, debentures, notes or other evidences of indebtedness which are issued by entities organized and doing business in the United States and which carry as a minimum one of the “Baa” ratings of Moody’s Investors Service or one of the “BBB” ratings of Standard and Poor's Rating Service, or their successors;

8. Securities of or any other interests in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, if both of the following are met:

    (a) The investment company or investment trust takes delivery of the collateral for any repurchase agreement either directly or through an authorized custodian; and

    (b) The investment policy of the investment company or investment trust includes seeking to maintain a constant share price;

9. Certificates of deferred property taxes as provided by Arizona statutes;

10. Treasurer's warrant notes or registered warrants of a county if the yield is equal to or greater than the yields on eligible investment instruments of comparable maturities;

11. Shares in the State Treasurer's local government investment pools, provided that the investment policies of the pool seek to maintain a constant share price;

12. State Transportation Board funding obligations, under certain specified conditions; or

13. Certain certificates of deposit purchased in accordance with State Law.

The Department does not participate in any investment decisions regarding the State's General Fund, does not monitor the investment of monies by the State Treasurer and does not verify that monies in the State General Fund are invested in conformance with applicable law.

STATE RETIREMENT SYSTEM

Retirement Benefits

A brief description of the various retirement programs in which State employees participate is located in Footnote 5 in the excerpts from the State's Comprehensive Annual Financial Report in APPENDIX B.

Other Post-Employment Benefits

Beginning with the fiscal year that commenced on July 1, 2008, the State was required to implement GASB 45, *Accounting by Employers for Other Post Employment Benefits* ("OPEB"), which requires reporting the actuarially accrued cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. GASB 45 requires that such benefits be recognized as current costs over the working lifetime of employees and, to the extent such costs are not pre-funded, the reporting of such costs as a financial statement liability.

State employees, their spouses and survivors may be eligible for certain retiree health care benefits under health care programs provided through the State. Employees on long-term disability and their spouses may also qualify for retiree health care benefits through the State. It is expected that substantially all State employees that reach normal or early retirement age while working for the State will become eligible for such benefits. Currently, such retirees may obtain the health care benefits offered by the State by paying 100% of the applicable health care insurance premium available to all participants, whether retired or not, in the State's health care program. The State makes no payments for OPEB costs for such retirees. Even though the retirees are paying 100% of the insurance premiums there is, however, according to GASB 45, an implicit rate subsidy since the retirees are paying a lower premium than what would be paid if the insurance premiums were based on the retiree's age.

The State commissioned an actuarial valuation of the OPEB costs associated with the health care programs available to retirees through the State in order to meet the requirements of GASB 45. Based on that valuation, the financial impact to the State was determined to not be material to the State's financial statements.

STATE LEASE-PURCHASE OBLIGATIONS

Outstanding State Lease-Purchase Obligations

To date, the Department and the Arizona School Facilities Board ("ASFB"), at the direction of the State Legislature, have entered into lease-purchase or lease-to-own agreements wherein the annual lease payments are expected to be paid by the Department and the ASFB, respectively, from monies appropriated from the State's General Fund. The lessor's interest in each of these agreements has been participated among investors in the form of certificates of participation. The outstanding amount of certificates of participation related to lease-purchase or lease-to-own agreements entered into by the Department and the ASFB is listed below. To date, the State has annually appropriated sufficient monies to make all lease payments on these obligations.

Outstanding Certificates of Participation in Department's Lease-Purchase Agreements*

Dated Date of Lease	Original Amount	Year of Lease Termination	Principal Portion of Lease Payments Remaining
11-01-01	$ 57,930,000	2011	$ 7,050,000
12-01-01	29,895,000	2028	28,210,000
04-01-02	63,270,000	2022	35,800,000
07-01-02	75,295,000	2010	25,265,000 (1)
05-01-04	16,725,000	2011	4,530,000
05-15-04	31,965,000	2018	22,865,000
10-01-05	87,645,000	2027	79,080,000
04-01-08	238,990,000	2027	230,030,000
01-01-10	709,090,000	2029	709,090,000

* The Department intends to enter into the First Amendment to Lease Agreement in conjunction with the Series 2010B Certificates offered herein.

(1) Represents payment due under the Existing Lease Purchase Agreement. See "The PROPERTY – General Description."

Outstanding Certificates of Participation in ASFB's Lease-to-Own Agreements*

Effective Date of Lease	Original Amount	Year of Lease Termination	Principal Portion of Lease Payments Remaining
01-28-03	$372,730,000	2013	$107,980,000
09-04-03	194,610,000	2014	69,550,000
03-18-04	47,160,000	2018	32,795,000
08-24-04	190,040,000	2016	91,415,000
12-07-04	47,585,000	2019	37,460,000
03-15-05	334,225,000	2019	327,555,000
11-01-08	580,035,000	2023	580,035,000

* The ASFB intends to enter into an additional lease-to-own agreement in the principal portion of $100 million in the next several months.

Annual Lease Payment Requirements

The following table sets forth the annual lease payments on the currently outstanding lease-purchase or lease-to-own agreements of the Department and Arizona School Facilities Board, including the Series 2010B Certificates.

		Lease Payments on Series 2010B Certificates*		
Fiscal Year	**Lease Payments on Outstanding Certificates (a)**	**Principal Payment Portion**	**Interest Payment Portion (b)**	**Total Lease Payments on Certificates***
2009-10	$166,032,073			$166,032,073
2010-11	236,058,248		$11,240,765.80	247,299,014
2011-12	229,877,424		14,608,937.50	244,486,362
2012-13	254,631,031	$11,165,000	14,441,462.50	280,237,494
2013-14	254,625,070	11,505,000	14,101,412.50	280,231,483
2014-15	254,668,643	11,855,000	13,751,012.50	280,274,656
2015-16	254,530,180	12,280,000	13,327,587.50	280,137,768
2016-17	254,327,775	12,780,000	12,826,387.50	279,934,163
2017-18	254,128,089	13,370,000	12,236,537.50	279,734,627
2018-19	201,070,986	14,055,000	11,550,912.50	226,676,899
2019-20	173,403,141	14,775,000	10,830,162.50	199,008,304
2020-21	150,408,717	15,535,000	10,072,412.50	176,016,130
2021-22	150,495,813	16,330,000	9,275,787.50	176,101,601
2022-23	150,570,359	17,170,000	8,438,287.50	176,178,647
2023-24	144,543,681	18,070,000	7,534,700.00	170,148,381
2024-25	85,974,006	19,045,000	6,560,431.25	111,579,437
2025-26	86,056,319	20,075,000	5,533,531.25	111,664,850
2026-27	86,126,719	21,155,000	4,451,243.75	111,732,963
2027-28	82,701,625	22,325,000	3,281,987.50	108,308,613
2028-29	61,641,375	23,590,000	2,019,325.00	87,250,700
2029-30	60,095,750	24,920,000	685,300.00	85,701,050

*Preliminary, subject to change

(a) Includes annual lease payments on all currently outstanding lease-purchase or lease-to-own agreements of the Department and ASFB.
(b) The first interest payment on the Series 2010B Certificates is October 1, 2010. Interest on the Series 2010B Certificates is estimated at an average annual rate of 5.00%.

Future Issuance Plans

As part of the budget plan for addressing the State's projected budget shortfall for fiscal year 2009-10, the State issued its $709 million principal amount of 2010A Certificates in January 2010, with $735.4 million in proceeds deposited to the State's General Fund. Proceeds of the Series 2010B Certificates in the amount of $300 million will also be deposited in the General Fund. The State further expects to deposit $450 million in proceeds of State Lottery Revenue Bonds, which are expected to be issued on or about June 15, 2010, in the General Fund.

As part of the Initial 2011 Budget Act, the ASFB expects to enter into approximately $100 million of lease-to-own obligations to support construction in K-12 school districts in the State. Such obligations are anticipated to be issued as Qualified School Construction Bonds under the provisions of ARRA and, as such, are expected to require a minimum annual cash outlay by the State in support of such obligations. The ASFB also anticipates refinancing payments on outstanding lease-to-own obligations to reduce General Fund appropriations for such obligation in fiscal year 2010-11 by $60 million.

THE ARIZONA PRISON SYSTEM AND INMATE DEMOGRAPHICS

General

As a portion of the Property includes State correctional facilities, the following information is being included herein.

The Arizona Department of Corrections ("ADC") was established pursuant to Arizona Laws 1968, Chapter 198 (A.R.S. §41-1601, et. seq.) by consolidating independently operated prisons into a single department and authorizing the ADC to "provide the supervisory staff and administrative functions at the state level of all matters relating to the institutionalization, rehabilitation and community supervision functions of all adult offenders."

Inmates, upon arriving to the ADC, are classified according to the risk they present to the public and staff into one of four custody levels; minimum, medium, close and maximum. The ADC operates ten state prisons for male and female inmates in the four custody levels (minimum, medium, close and maximum) and contracts with two private prison companies, GEO Group ("GEO") and Management and Treatment Corporation ("MTC"), to operate an additional five correctional facilities for minimum and medium custody male inmates in Arizona. The ADC also contracts with Navajo County for provisional beds in its county jail and with two private prison companies, Correctional Corporation of America ("CCA") and Cornell, for provisional minimum and medium custody beds for male inmates in Oklahoma and Colorado.

Prison housing units in the ten state prisons are based on this tiered, four-level system that reflects the security and custody requirements of classified inmates and corresponds with the inmate classification system. All State prison construction since 1987 follows prototypical designs to create a security and custody range from maximum security to minimum security. State prison facilities constructed prior to 1987 have been modified to conform as closely as possible to the current prototype.

Arizona Prison System Institutional Capacity and Committed Population

As of May 21, 2010, the ADC had a total operating capacity of 41,133 beds including 28,472 State rated prison beds; 4,931 State temporary prison beds; 5,449 in-state contracted private beds and 2,281 out-of-state contracted private provisional beds.

The following table identifies operating capacity beds by custody levels as of November 30, 2009:

Custody	Rated Beds	Temporary Beds	Total Operating Capacity Beds	Percent of Total Capacity
Maximum	3,121	557	3,678	9%
Close	5,173	30	5,203	13%
Medium	14,564	2,354	16,918	41%
Minimum	12,656	2,678	15,334	37%
Total	**35,514**	**5,619**	**41,133**	**100%**

The following table summarizes the operating capacity and committed population by Arizona State Prison Complex ("ASPC") or other location as of May 21, 2010:

Location	Operating Capacity	Inmates
ASPC-Douglas	2,684	2,667
ASPC-Eyman	5,252	5,550
ASPC-Florence	4,439	4,496
ASPC-Lewis	5,356	5,374
ASPC-Perryville	3,958 (a)	3,492
ASPC-Phoenix	714	624
ASPC-Safford	1,934	1,971
ASPC-Tucson	4,572 (a)	4,513
ASPC-Winslow	1,890	1,863
ASPC-Yuma	2,604 (a)	2,382
In-State Private Prisons	5,449	5,424
Out-of-State Provisional	2,281	2,285
Total	**41,133**	**40,641**

(a) ASPC-Perryville and ASPC-Tucson are each currently being expanded through the addition of 1,000 beds and ASPC-Yuma is currently being expanded through the addition of 2,000 beds. The State has received substantial completion notices on all new 4,000 beds and has begun to exercise them with minimal occupancy. ADC expects to begin full loading of the beds after July 1, 2010.

The following table identifies the bed surplus/(deficit) by gender as of November 30, 2009:

Category	Male Inmates	Female Inmates	Total
Operating Capacity Beds	36,859	4,274	41,133
Inmate Population	36,853	3,788	40,641
Bed Surplus/(Deficit)	**6**	**486**	**492**

Operating capacity figures do not include beds that have been identified as special use, i.e. complex detention, isolation units, etc. The ADC has designated 1,439 special use beds in its facilities and private contractors have designated 352 special use beds for a total of 1,791 special use beds.

Adult reception and diagnostic centers are set up for males in the Phoenix prison complex and for females at the Perryville prison complex. These centers serve as a doorway into the State's prison system by evaluating and determining an inmate's appropriate classification and institutional assignment. There were 21,423 admissions during 2008 and 22,316 during 2009. The State anticipates that the inmate population will grow an average of 114 inmates per month for the next five years.

Since 1980, the growth rate in Arizona's prisons has followed the national trend of outstripping the growth rate in the general population. This is due to changes in sentence structures, current widespread emphasis on enforcement, and changes in public policy, including mandatory prison sentences for certain offenses. Inmate trends for the United States and Arizona are shown below:

Year	U.S. Total Number of Inmates (a)	Annual Percent Change	U.S. Incarceration Rate (b)	Arizona Number of Inmates (a)	Annual Percent Change	Arizona Department of Corrections Incarceration Rate (b)
1999	1,363,701	4.85%	476	25,986	1.85%	495
2000	1,391,261	2.02%	478	26,510	2.02%	515
2001	1,404,032	0.92%	470	27,710	4.53%	492
2002	1,440,695	2.61%	476	29,357	5.94%	513
2003	1,468,601	1.94%	482	31,171	6.18%	525
2004	1,496,629	1.91%	486	32,515	4.31%	534
2005	1,527,929	2.09%	491	33,565	3.23%	521
2006	1,570,861	2.81%	501	35,892	6.93%	509
2007	1,598,316	1.75%	506	37,746	5.17%	554

(a) Inmate numbers are for inmates serving one year or more.
(b) Incarceration rates are per 100,000 population and based on inmates serving one year or more.

Source: U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics. 2007 is the most recent year for which data is available.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Located in the country's sunbelt, Arizona continues to be one of the fastest growing areas in the United States. Based on 2000 census figures, Arizona ranks 20th in U.S. population. Over the last several decades, Arizona has outpaced most other regions of the country in virtually every major category of growth, including population, personal income, gross state product and job creation.

Geographically, Arizona is the nation's sixth largest state in terms of area (113,417 square miles). It is divided into three distinct topographic regions: northern Arizona - high plateau country traversed by deep canyons such as the Grand Canyon National Park; central Arizona - rugged, mountainous and heavily forested; and southern Arizona - encompassing desert areas and flat, fertile agricultural lands in valleys between mountains rich in mineral deposits. These topographic areas all have different climates, which have distinctively influenced development in each region. Land ownership is vested largely in the federal and State governments: 42.1% is owned by the federal government, 27.3% is held as Federal Trust Land (Indian), 17.8% is privately owned and 12.8% is held by the State.

Arizona is divided into 15 counties. Two of these counties, Maricopa County and Pima County, are more urban in nature and account for approximately 75% of total population and 80% of total wage and salary employment in Arizona, based on 2000 estimates. Located within Maricopa County is the greater Phoenix metropolitan area, which consists of the City of Phoenix, the fifth largest city in the United States, and the surrounding cities including Scottsdale, Tempe, Mesa, Glendale, Chandler, Peoria, Gilbert and Avondale. Located within Pima County is the Tucson metropolitan area, which is dominated by the City of Tucson, the State's second most populous city.

The chart below depicts the population growth since 1970 of Arizona and its most populous political subdivisions, as compared to that of the United States.

Population Profile

	1970	1980	1990	2000	Percent Change 1990-2000	Percent Change 1980-2000	Percent Change 1970-2000
Phoenix	582,500	789,704	983,403	1,321,045	34.33%	67.28%	126.79%
Maricopa County	971,228	1,509,175	2,122,101	3,072,149	44.77%	103.56%	216.32%
Tucson	262,933	330,537	405,390	486,699	20.06%	47.24%	85.10%
Pima County	351,667	531,443	665,957	843,746	26.70%	58.77%	139.93%
State of Arizona	1,775,399	2,716,546	3,665,339	5,130,632	39.98%	88.87%	188.98%
United States	205,052,174	227,224,681	249,464,396	281,421,906	12.81%	23.85%	37.24%

Source: Arizona Department of Commerce, Population and Statistical Unit.

The following table sets forth the percent change in population between 1990 and 2000 for the top ten states in population change as well as an estimated population change from 2000 to 2009. Arizona ranked second nationally in population growth during these periods.

Population Growth

	1990	2000	% Change from 1990 Census	2009 Estimate (a)	% Change from 2000 Census
Nevada	1,201,833	1,998,257	66.3%	2,643,085	32.27%
Arizona	3,665,339	5,130,632	40.0	6,595,778	28.56
Colorado	3,294,394	4,301,261	30.6	5,024,748	16.82
Utah	1,722,850	2,231,169	29.6	2,784,572	24.80
Idaho	1,006,749	1,293,953	28.5	1,545,801	19.46
Georgia	6,478,216	8,186,453	26.4	9,829,211	20.07
Florida	12,937,926	15,982,378	23.5	18,537,969	15.99
Texas	16,986,510	20,851,820	22.8	24,782,302	18.85
North Carolina	6,628,637	8,049,313	21.4	9,380,884	16.54
Washington	4,866,692	5,894,121	21.1	6,664,195	13.07

(a) As of July 1, 2009.

Source: Census data figures from the U.S. Census Bureau, Population Division.

Also important to Arizona's development is the diversity of its economic growth. As growth in the mining and agricultural employment sectors has diminished over the last 25 years, significant job growth has occurred in many other areas, including aerospace, high technology, construction, finance, insurance and real estate.

The chart below indicates the relative non-agricultural wage and salary employment structure for Arizona in 2009.

Non-Agricultural Wage and Salary Employment

Industry	2005	2006	2007	2008	2009	2010 (a)
Goods Producing						
Natural Resources and Mining	8,600	9,900	11,500	13,500	11,100	10,800
Construction	219,400	240,300	224,900	186,100	128,800	111,600
Manufacturing	182,300	185,700	181,700	173,100	153,100	146,800
Service-Providing						
Trade, Transportation and Utilities	488,600	512,200	527,700	516,800	479,900	478,900
Information	45,300	44,100	42,500	42,000	39,300	37,300
Financial Activities	174,400	182,800	183,900	175,300	166,500	162,100
Professional and Business Services	366,000	394,400	403,300	386,000	345,900	339,300
Educational and Health Services	275,700	291,600	305,000	320,700	329,400	335,200
Leisure and Hospitality	254,300	266,700	273,000	270,200	256,100	258,600
Other Services	91,400	98,200	99,200	100,400	93,800	90,800
Government	402,900	408,500	421,000	432,300	422,600	424,700
Total (b)	2,508,000	2,634,500	2,673,700	2,616,300	2,426,500	2,395,900

(a) Data through April 2010.
(b) Total may not add due to rounding.

Source: Arizona Department of Commerce, Research Administration.

The following table compares the average unemployment rate of the United States with the averages for Arizona, Maricopa County and Pima County.

Average Unemployment Rates

Year	United States	State of Arizona	Maricopa County	Pima County
2010 (a)	9.8%	9.5%	8.7%	8.7%
2009	9.3	9.1	8.3	8.3
2008	5.8	5.5	4.8	5.1
2007	4.6	3.8	3.2	3.7
2006	4.6	4.2	3.5	4.1
2005	5.1	4.7	4.1	4.6
2004	5.5	5.0	4.4	4.6

(a) As of April 2010.

Source: Arizona Department of Commerce, Research Administration.

Arizona Gross Domestic Product (GDP) is a measurement of output from all industries and represents the market value of all goods and services produced by labor and property in the State. The following table shows GDP for the State of Arizona and for the two largest Metropolitan Statistical Areas (MSAs), Phoenix-Mesa-Scottsdale and Tucson.

State Gross Domestic Product
(in millions)

Year	State of Arizona	Phoenix-Mesa-Scottsdale MSA	Tucson MSA
2008	$248,888	$187,431	$31,805
2007	245,952	186,577	30,913
2006	236,421	179,788	29,738
2005	215,207	163,452	27,446
2004	193,448	147,088	24,983

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal income is income received by persons from all sources, including wage and salary disbursements, rental income, dividend and interest income and other receipts. The following table shows total personal income for the State, as well as per capita personal income for the State compared to the United States for the past ten years.

Personal Income

Year	State of Arizona (a)	State of Arizona Per Capita	United States Per Capita
2008	$223,184,451	$34,335	$40,208
2007	218,639,267	34,413	39,430
2006	206,957,383	33,498	37,728
2005	188,153,463	31,563	35,447
2004	170,027,008	29,567	33,899

(a) Data is shown in 000's.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

MARICOPA COUNTY

General

Maricopa County (the "County" for purposes of this section) was named after the Maricopa Indian tribe and was formed as the fifth county of Arizona in 1871. The principal geographic features of the County consist of the expansive river valleys of the Salt and Gila Rivers and a number of rugged mountain ranges scattered throughout the County.

The County encompasses approximately 9,222 square miles, 98 square miles of which is water. Approximately 71% of the County's land is under federal, State or other governmental control with approximately 29% of the land being privately owned.

Land Ownership
Maricopa County, Arizona

Control/Ownership	Approximate Percent of County
U.S. Forest Service	11%
U.S. Bureau of Land Management	28%
Indian Reservation	5%
State of Arizona	11%
Individual or Corporate	29%
Other Public Lands	16%

Source: *Arizona County Profiles*, Arizona Department of Commerce, December 2009.

The heart of the County is the Salt River Valley, which runs approximately 40 miles east to west and 20 miles north to south. The Valley's level terrain is conducive to both agriculture and industry. Located within Maricopa County are the City of Phoenix, the State capital, and the following cities: Avondale, Chandler, Glendale, Goodyear, Litchfield Park, Mesa, Peoria, Scottsdale, Surprise, Tempe and Agua Fria; the towns of Buckeye, Carefree, Cave Creek, Fountain Hills, Gila Bend, Guadalupe, Gilbert, Paradise Valley, Queen Creek, Wickenburg and Youngtown; and the unincorporated retirement communities of Sun City and Sun City West along with several smaller communities. Metropolitan Phoenix (consisting of the cities of Phoenix, Mesa, Glendale, Scottsdale, Tempe, Chandler, Peoria, Gilbert and Avondale) is the population center of Arizona with over three million residents, which is approximately 51% of the population of the State.

The following table illustrates respective population statistics for the State, the County and the principal cities in the greater metropolitan Phoenix area.

Population Statistics

	State of Arizona	Maricopa County	City of Phoenix	City of Mesa	City of Glendale	City of Chandler	City of Scottsdale	City of Tempe
2009 Estimate (a)	6,683,129	4,023,331	1,575,423	461,102	249,197	245,087	243,501	174,833
2000 Census	5,130,632	3,072,149	1,321,045	396,375	218,812	176,581	202,705	158,625
1995 Special Census	4,307,150	2,551,765	1,149,417	338,117	182,615	132,360	168,176	153,821
1990 Census	3,665,339	2,122,101	983,403	288,091	148,134	90,533	130,069	141,865
1985 Special Census	3,183,539	1,837,956	881,640	239,587	122,392	63,855	108,447	132,942
1980 Census	2,716,546	1,509,262	789,704	152,453	97,172	29,673	83,364	106,743

(a) As of July 2009.

Source: Arizona Department of Commerce, Population Statistics Unit.

Economy

The County's economy is based on two major employment categories, goods producing and service providing. Goods producing employment includes major employment sectors such as construction and manufacturing while trade, transportation and utilities and professional and business services are major employers in the service providing category.

The following table illustrates the employment structure in the County.

Wage and Salary (Non-Farm) Employment
Maricopa County, Arizona
2005 to 2010

Industry	2005	2006	2007	2008	2009	2010 (a)
Goods Producing						
Mining and Construction	163,200	184,000	167,700	140,000	96,300	85,200
Manufacturing	133,100	136,700	133,300	127,400	110,700	105,500
Service Providing						
Trade, Transportation and Utilities	354,400	371,000	380,000	374,000	347,200	348,400
Information	33,000	32,600	31,000	31,200	28,700	27,100
Financial Activities	146,000	153,100	152,100	146,200	138,000	133,000
Professional and Business Services	293,400	317,400	320,700	304,400	271,200	265,400
Educational and Health Services	180,000	191,100	200,700	212,900	220,200	224,300
Leisure and Hospitality	166,600	176,800	181,700	180,900	170,400	172,800
Other Services	64,700	71,400	68,600	72,500	67,100	65,200
Government	208,800	213,300	218,300	225,200	218,700	221,600
Total	1,743,200	1,847,400	1,854,100	1,814,700	1,668,500	1,648,400

(a) Data through April 2010.

Source: U.S. Department of Labor, Bureau of Labor Statistics and the Arizona Department of Commerce, Research Administration.

Construction

The following charts illustrate a building permit summary for residential and non-residential construction and new housing starts for the County.

Value of Building Permits
Maricopa County, Arizona
(in thousands)

Calendar Year	Residential	Commercial and Industrial	Other	Total
2009	$1,878,957	$1,374,733	$1,482,833	$ 4,736,523
2008	2,648,031	4,193,439	2,408,825	9,250,295
2007	5,022,311	4,696,342	2,257,246	11,975,899
2006	6,512,139	3,684,705	2,085,842	12,282,686
2005	9,132,641	3,453,424	1,488,320	14,074,385

Source: Realty Studies, ASU Polytechnic Campus, Arizona State University.

New Housing Permits
Maricopa County, Arizona

Calendar Year	Total New Housing Permits
2009	7,765
2008	18,366
2007	35,465
2006	40,294
2005	56,139

Source: Realty Studies, ASU Polytechnic Campus, Arizona State University.

The following chart illustrates the number of new homes that have been sold in each calendar year and the median price of these homes.

Number of New Home Sales and Median Price
Maricopa County, Arizona

Year	Number of Home Sales	Median Price
2009	8,320	$208,040
2008	14,960	235,955
2007	25,850	285,085
2006	38,485	306,355
2005	42,550	251,795

Source: Realty Studies, ASU Polytechnic Campus, Arizona State University.

Service Providing

The service-producing sector is the main employment sector in the County. Nearly one-third of all the County businesses provide a service, with over 73% of the workforce employed in this sector.

Trade.

The following table illustrates taxable retail sales for the County over the period shown.

Taxable Retail Sales
Maricopa County, Arizona
($000's omitted)

Year	Amount (a)	% Change
2010(b)	$7,684,659	N/A
2009	29,102,209	(12.91%)
2008	33,415,805	(10.57)
2007	37,364,089	0.25
2006	37,269,072	9.28

(a) The definition of "Retail Sales" is the business of selling tangible personal property at retail. Therefore, this class of transaction does not include hotels, restaurants or food sales, which are in separate classes, and all services that are not taxable.
(b) Data through March 2010.

Source: Arizona Department of Revenue.

Transportation.

Over the past decade, Phoenix Sky Harbor International Airport has made various improvements to its existing facilities such as adding a new concourse to Terminal 4 in 1999, the addition of a third runway in 2000 and the addition and improvement of various parking facilities located throughout the airport. In order to keep up with growing demand at Phoenix Sky Harbor International Airport, there are currently over seventy construction projects in progress with an estimated cost of $600 million. Airlines serving Phoenix Sky Harbor International Airport at present are as follows:

Airlines Serving Phoenix Sky Harbor International Airport

Major Airlines

Aero Mexico	Hawaiian Airlines
Air Canada	Jet Blue Airways
Air Tran	Midwest Airlines
Alaska Airlines	Northwest Airlines
American Airlines	Southwest Airlines
British Airways	Sun Country
Continental Airlines	TED
Delta Airlines	United Airlines
Frontier Airlines	US Airways
Great Lakes	West Jet Airlines

Source: The City of Phoenix Aviation Department.

Number of Passengers
Arriving and Departing

Sky Harbor International Airport

Year	Arrivals	Departures	Total
2010 (a)	4,815,177	4,738,885	9,554,062
2009	18,971,263	18,853,719	37,824,982
2008	20,074,700	19,816,493	39,891,193
2007	21,240,582	20,943,933	42,184,515
2006	20,892,649	20,544,088	41,436,737
2005	20,801,922	20,413,420	41,215,342

(a) As of March 2010.

Source: The City of Phoenix Aviation Department.

Leisure and Hospitality.

The leisure and hospitality industry contribute substantially to the service producing sector. Tourism is a major component of the leisure industry. Most of the tourism money in the State is spent in the County with a majority of dollars being spent for food, lodging and gasoline. The County has developed into a major tourism center. Excellent tourist accommodations, diverse cultural activities and a favorable climate attract millions of visitors to the area annually. The County's proximity to many of Arizona's scenic attractions, Phoenix convention facilities, Nevada, California and Mexico make it a natural tourism center for the entire Southwest. The following table illustrates taxable lodging sales for the County.

Taxable Lodging Sales
Maricopa County, Arizona
(in thousands)

Year	Amount
2009	$1,140,548
2008	1,423,557
2007	1,498,815
2006	1,433,796
2005	1,342,024

Source: Arizona Department of Revenue, Calculated Taxable Sales by County and Sector (as provided by Arizona Hospitality Research & Resource Center, The W.A. Franke College of Business, Northern Arizona University).

Employers

The following table lists the County's largest employers for 2009.

Maricopa County, Arizona

Employer	Service/Product	Approximate Employment (a)
State of Arizona	Government	52,420
Wal-Mart Stores Inc.	Retail Stores	31,280
Banner Health Systems	Health Care	27,431
City of Phoenix	Government	16,375
Wells Fargo Bank	Banking and Financial Services	14,000
Maricopa County	Government	12,996
Apollo Group Inc.	Higher Education	12,299
Arizona State University	Higher Education	12,043
Honeywell Aerospace	Control Technology	10,145
Bank of America	Banking and Financial Services	10,000
Intel Corp.	Micro Computer Components	10,000
JP Morgan Chase & Co.	Financial Services	9,300
Mesa Public Schools	Education	9,200
U.S. Postal Service – Arizona District	Mail Delivery	8,681
US Airways	Aviation and Travel	8,646
Luke Air Force Base – 56th Fighter Wing	Military Base	8,000
Catholic Healthcare West	Health Care	7,771
American Express	Financial and Travel Services	7,324

(a) Full-time equivalent employees.

Source: The Book of Lists 2010, *Phoenix Business Journal*.

Agriculture

The County is presently the leading producer of agricultural and livestock products in Arizona in terms of both total producing acreage and total cash receipts from agricultural marketing. The County is the largest producer of livestock, cotton, wheat, alfalfa and potatoes in the State, and the second leading producer of citrus products and vegetables.

Cash Receipts From Agricultural Marketing
Total Crops and Livestock
Maricopa County, Arizona
($000's omitted)

Year	Amount
2008	$ 881,115
2007	916,144
2006	996,950
2005	1,078,265
2004	1,022,736

Source: United States Department of Agriculture, 2008 Arizona Agricultural Statistics Bulletin (September 2009).

PIMA COUNTY

General

Pima County, Arizona (the "County") is located in the southern portion of the State, with a section of its southern boundary bordering Mexico. The County encompasses an area of approximately 9,184 square miles. Organized in 1864 by the Arizona Territorial Legislature as one of the State's four original counties, the County is today the second most populous county in Arizona with an estimated 2009 population of 1,018,012. Approximately 53% of the County's population resides in the City of Tucson, Arizona ("Tucson"), the County seat of government and southern Arizona's largest city.

Employment

The economy of the County is based largely on a variety of service industries, trade, and government employment. Figures from the Arizona Department of Economic Security indicate that 357,100 persons were employed, on average (not including the agricultural industry), in the County in 2010. The following table presents the County's average annual total employment by industry for the years indicated:

Pima County
Average Annual Employment
Number of Persons Employed 2005 to Present

Industry	2006	2007	2008	2009	2010 (a)
Goods Producing					
Natural Resources and Mining	1,600	1,800	1,900	1,700	1,700
Construction	28,100	26,400	22,600	16,500	14,100
Manufacturing	28,800	27,500	27,300	25,100	24,300
Service Producing					
Trade, Transportation and Utilities	61,800	63,900	61,800	58,200	57,300
Information	7,000	6,000	5,100	4,800	4,500
Financial Activities	17,300	17,800	17,200	17,400	17,400
Professional and Business Services	49,100	52,300	51,700	47,300	47,400
Education and Health Services	52,800	54,200	57,100	58,600	59,400
Leisure and Hospitality	40,700	39,800	40,000	38,700	39,100
Other Services	15,900	15,500	15,700	14,700	14,300
Government	76,800	77,900	80,600	78,900	79,000
Total	379,900	383,100	381,000	361,900	358,400

(a) As of April 2010

Source: U.S. Department of Labor, Bureau of Labor Statistics and the Arizona Department of Commerce, Research Administration.

Goods Producing

Mining.

According to the Arizona Mining Association, Arizona leads the nation in copper production, accounting for 65% of the total U.S. mine production. However, the cyclical nature of this industry has caused some consolidation of its resources to improve production. In the early 1980's, the Arizona copper industry's direct economic impact on the Arizona economy regularly exceeded $1.0 billion, peaking in 1981 at approximately $1.612 billion when the industry employed roughly 25,000 persons. This level of impact dropped to $0.875 billion in 1986, but increased to $1.49 billion in 1999. The direct economic impact of the industry statewide was approximately

$3.862 billion, $3.264 billion, and $2.120 billion in 2008, 2007, and 2006, respectively. The direct impact of the copper industry within the County was $1,107.5 million in 2008, $1,044.9 million in 2007 and $746.1 million in 2006. Employment in the mining industry within the County was approximately 1,900 in 2008, 1,800 in 2007 and 1,600 in 2006.

Construction.

The following charts illustrate a building permit summary for residential and non-residential construction and new housing starts for the County.

Value of Building Permits
Pima County, Arizona
(in thousands)

Year	Residential	Commercial& Industrial	Other	Total
2009	$ 399,714	$ 118,296	$ 46,646	$ 564,656
2008	598,774	308,024	114,784	1,021,582
2007	864,602	438,877	89,391	1,392,870
2006	1,562,755	216,365	129,928	1,909,048
2005	2,180,381	324,492	150,686	2,655,559

Source: Realty Studies, ASU Polytechnic Campus, Arizona State University.

New Housing Starts
Pima County, Arizona

Year	Total Housing Units Permitted
2009	2,179
2008	3,207
2007	4,629
2006	9,082
2005	12,272

Source: Realty Studies, ASU Polytechnic Campus, Arizona State University.

Manufacturing.

The manufacturing sector continues to be dominated by the high technology industries of aerospace and electronics. Raytheon Missile Systems, the largest manufacturing company in the County, is a major supplier of advanced munitions. Civilian aviation products and services are provided by Bombardier, which has an aircraft maintenance facility in Tucson, and Universal Avionics Systems Corp., which builds and installs advanced instrumentation, communication and navigation systems for civil aircraft. Texas Instruments and International Business Machines manufacture electronic circuitry and data storage devices. Ventana Medical Systems provides computerized medical laboratory equipment.

Average annual employment in the manufacturing sector within the County in 2009 was 25,100, representing 7.3% of the County's total wage and salary employment base. Manufacturing employment during 2008 and 2007 averaged 27,300 and 27,500, respectively.

The following table presents the major manufacturers in the County and the Tucson metropolitan area:

Metropolitan Pima County
Major Manufacturers

Company	Type of Business	Approximate 2010 Employment
Raytheon Missile Systems	Missile Manufacturing	12,140
IBM	Business & Technology Products	1,400
Ventana Medical Systems Inc.	Medical Equipment	965
Honeywell Aerospace	Aircraft Electronic Systems	695
Bombardier Aerospace	Aircraft Maintenance	591
Northrop Grumman Corp.	Military Aircraft Modification	500
B/E Aerospace	Aircraft Passenger Cabin Interior Products	360
Texas Instruments	Operation Amplifiers	350
Universal Avionics Systems Corp.	Avionics Systems	255

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2010).

The County's proximity to Mexico makes twin plant "maquiladora" operations practical. Components are manufactured in Tucson and transported duty-free to Nogales, Sonora, Mexico, 65 miles south of Tucson, for assembly. Among the companies operating "twin plants" in Tucson and Nogales are General Electric, Samsonite, Motorola, Acco, Moen Faucets and Masterlock. These manufacturers contribute to the County's economy in many ways including the support of numerous suppliers and peripheral industries. The proximity of the Mexican border is more significant to manufacturing concerns given the existence of the North American Free Trade Agreement between Canada, the United States and Mexico. However, the uncertainty of the U.S. and Mexican economies may negatively impact the growth of the previously described manufacturing concerns.

Service Providing

Leisure and Hospitality.

Leisure and Hospitality is an important economic mainstay in the County and the Tucson area. The County's climate, historical and cultural sites, location and proximity to vacation areas in California, Mexico, and other Southwest destinations attract vacationers, conventioneers and other visitors. The Metropolitan Tucson Convention and Visitors Bureau estimated that over 757 convention bookings with 264,988 convention delegates visited the Tucson area in fiscal year 2007-08. In the Tucson area, the Bureau estimates that there are 192 hotels and resorts with over 16,227 rooms. Points of interest, recreational sites and sight-seeing attractions include the Arizona-Sonora Desert Museum, Kitt Peak National Observatory, Pima Air and Space Museum, Titan Missile Museum, Saguaro National Monument, Mission San Xavier del Bac, Mount Lemmon, Sabino Canyon, Biosphere 2, and numerous resorts and golf courses. In addition, the Tucson metropolitan area is the home of spring training for Major League Baseball's Arizona Diamondbacks, Chicago White Sox and Colorado Rockies.

Retail Trade/Sales.

Wholesale and retail trade includes restaurants, hotels, taverns, service stations, automobile repair shops, shopping malls and wholesale dealers. The largest individual employers in the retail sector (companies with more than 1,000 employees) are Wal-Mart Stores, Bashas' Inc., Safeway Stores Inc., Fry's Food and Drug Stores, Walgreen Co., Home Depot, Albertsons-Osco and Crosstown Traders.

The retail sales figures set forth below are based on the sales tax collections within the County excluding penalties, late charges and nontaxable items. The sales tax rate levied by the State on retail sales within the County is 5.6%. In addition, cities and towns within Pima County generally levy a 2% to 4% sales tax. The Pima County

Regional Transportation Authority levies a county-wide 0.5% sales tax.

The following table sets forth retail sales figures in the County for the past five full years:

Taxable Retail Sales (a)
Pima County, Arizona
($000's omitted)

Year	Amount	% Change
2010(b)	$1,768,199	N/A
2009	6,547,084	(9.86%)
2008	7,263,583	(7.14%)
2007	7,822,498	1.05%
2006	7,740,869	7.49%
2005	7,201,702	9.21%

(a) Excludes Food Sales and Gas Tax.
(b) Data through March 2010.

Source: Arizona Department of Revenue.

APPENDIX B

STATE OF ARIZONA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Janice K. Brewer, Governor
State of Arizona

The Honorable Bob Burns, President
Arizona State Senate

The Honorable Kirk Adams, Speaker
Arizona House of Representatives

The Honorable Rebecca White Berch, Chief Justice
Arizona Supreme Court

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2009, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments and the component units, which account for the following percentages of the assets and revenues, additions, and other financing sources, as applicable, of the opinion units affected:

Opinion Unit/Department	Assets	Revenues/Additions/ Other Financing Sources
Government-wide Statements		
Governmental activities:		
Arizona Health Care Cost Containment System	2.76%	21.28%
Department of Transportation	70.42%	12.69%
Business-type activities:		
Lottery Department	.90%	10.61%
Arizona Health Care Cost Containment System	.19%	1.39%
Department of Transportation	1.31%	.22%
Aggregate discretely presented component units:		
Component Units	100.00%	100.00%
Universities—Affiliated Component Units	100.00%	100.00%

Opinion Unit/Department	Assets	Revenues/Additions/ Other Financing Sources
Fund Statements		
Major Governmental Funds:		
General Fund—Arizona Health Care Cost Containment System	35.94%	23.13%
Transportation and Aviation Planning, Highway Maintenance and Safety Fund—Department of Transportation	100.00%	100.00%
Major Enterprise Fund:		
Lottery Fund—Lottery Department	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Health Care Cost Containment System	.10%	2.63%
Department of Transportation	2.17%	13.00%
Arizona State Retirement System	60.37%	(35.90)%
Public Safety Personnel Retirement System	11.23%	(5.70)%
Corrections Officer Retirement Plan	2.63%	(1.38)%
Elected Officials' Retirement Plan	.71%	(.50)%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Arizona Power Authority and the universities—affiliated component units, which were reported as discretely presented component units, were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements of the Healthcare Group of Arizona, a nonmajor enterprise fund, are included as part of the State's business-type activities and aggregate remaining fund information. As discussed in Note 9, the Healthcare Group of Arizona has incurred significant operating losses in the past years and has a fund deficit of $10.789 million at June 30, 2009, that raise substantial doubt about its ability to continue operations. Management's plans in regard to these matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

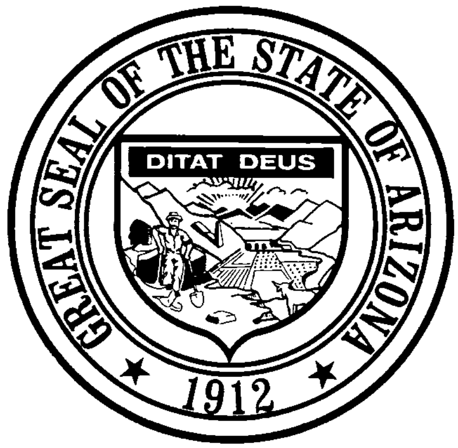
The Management's Discussion and Analysis on pages 21 through 33, the Budgetary Comparison Schedules on pages 131 through 153, the Infrastructure Assets information on pages 154 through 157, and the Schedule of Agent Retirement Plans' Funding Progress on page 158 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, combining financial statements and schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

May 7, 2010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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Arizona's (the State's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

FINANCIAL HIGHLIGHTS

Government-wide:

- The assets of the State exceeded liabilities at the close of the fiscal year by $18.9 billion (reported as *net assets*). Of this amount, a deficit of $2.6 billion exists for *unrestricted net assets*, $5.1 billion is restricted for specific purposes (*restricted net assets*), and $16.4 billion is invested in capital assets, net of related debt.
- The State's total net assets decreased in fiscal year 2009 by $2.7 billion. Net assets of governmental activities decreased by $2.3 billion, while net assets of the business-type activities decreased by $366.256 million.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of $3.6 billion, a decrease of $1.9 billion from the beginning of the year. A deficit of $634.123 million exists for unreserved fund balance, which is approximately 17% of the combined fund balances.
- As of the close of the fiscal year, unreserved fund balance for the General Fund had a deficit of $1.4 billion, which is approximately 7% of total General Fund expenditures.
- The Land Endowments Fund reported fund balance at year end of $2.2 billion, a decrease of $348.591 million during the year. The Land Endowments Fund is used to help finance public education within the State as required by the federal government and the State's Constitution.
- The enterprise funds reported net assets at year end of $2.8 billion, a decrease of $356.788 million during the year.

Long-term Debt:

- The State's total long-term primary government debt increased during the fiscal year to $8.1 billion, an increase of $1.4 billion (or 21%). Changes during the year included the addition of revenue bonds, grant anticipation notes, and certificates of participation of $1.0 billion, $55.420 million, and $580.231 million, respectively. Also, the State retired $176.970 million of revenue bonds, $24.050 million of grant anticipation notes, and $97.015 million of certificates of participation.

More detailed information regarding the government-wide financial statements, fund level financial statements, and long-term debt activity can be found beginning on **page 24**.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Required Supplementary Information and other supplementary information are included in addition to the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State of Arizona's finances in a manner similar to private sector business. The financial statements report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better or worse off as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements include the following:

The Statement of Net Assets and the Statement of Financial Position (pages 38-40) present all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

The Statements of Activities (pages 42-44) present information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave). Additionally, long-term assets and liabilities are reported regardless of when these assets are expected to be converted to cash, or when the liability is expected to be liquidated (e.g., capital assets and bonded debt).

Government-wide statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.

- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, the State's unemployment compensation services, Industrial Commission rehabilitation services, and the State's three universities are examples of business-type activities.

- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the State are financially accountable. The Greater Arizona Development Authority, the University Medical Center, the Arizona Power Authority, and the Water Infrastructure Finance Authority are discretely presented component units reported by the State. Based on GASB Statement No. 39, the State has added University Foundations and financing authorities whose financial statements are prepared in conformity with U.S. generally accepted accounting principles as adopted by the Financial Accounting Standards Board. These organizations include the ASU Foundation, Arizona Capital Facilities Finance Corporation, the U of A Foundation, and other non-major foundations and financing authorities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by GASB, and include a statement of financial position **(page 40)** and a statement of activities **(page 44)**. See **pages 69-72 and 115-126** for more information on discretely presented component units.

Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on **page 45** and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, **page 162** begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – each category uses different accounting approaches.

- *Governmental funds* – Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the general, special revenue, capital projects, debt service, and permanent funds. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. This report includes two schedules **(pages 46 and 48-49)** that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) reported on the appropriate government-wide statement.

Governmental fund financial statements can be found on pages 45 and 47 of this report.

- *Proprietary funds* – When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public – such as the State Lottery Fund and Universities. Internal service funds report activities that provide supplies and services for the State's other programs and activities – such as the State's Risk Management Fund. Internal service fund operations primarily benefit governmental funds and are reported as governmental activities on the government-wide statements. The reconciliation between the government-wide financial statement business-type activities and the proprietary fund financial statements is presented at the end of the financial statements on **pages 52-55.**

Proprietary fund financial statements can be found on pages 50-59 of this report.

- *Fiduciary funds* – The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on **page 60.** These funds are reported using accrual accounting and include pension and other employee benefit trust, investment trust, and agency funds. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Fiduciary fund financial statements can be found on pages 60-61 of this report.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes can be found beginning on page 69 of this report.

Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules for the General Fund and each major special revenue fund and a reconciliation of the schedules of statutory and U.S. GAAP expenditures for the fiscal year. This section also includes schedules of condition and maintenance data regarding certain portions of the State's infrastructure and agent benefit plans' funding progress schedules.

Required supplementary information begins on page 131 of this report.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, non-major enterprise, all internal service funds, all fiduciary funds, and non-major universities – affiliated component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as are major funds on the governmental funds and proprietary funds financial statements. A budgetary expenditure comparison schedule for the non-major special revenue funds is also included.

Other supplementary information begins on page 162 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The State's overall financial position and operations for the past year for the primary government are summarized, as follows, based on the information included in the government-wide financial statements.

State of Arizona-Primary Government
Net Assets as of June 30, 2009 and 2008
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2009	2008	2009	2008, as restated	2009	2008, as restated
Current assets	$ 2,833,059	$ 3,980,247	$ 1,685,745	$ 1,897,597	$ 4,518,804	$ 5,877,844
Capital assets	17,859,557	16,801,737	3,404,613	3,309,868	21,264,170	20,111,605
Other non-current assets	4,946,384	5,269,246	1,076,150	973,408	6,022,534	6,242,654
Total Assets	25,639,000	26,051,230	6,166,508	6,180,873	31,805,508	32,232,103
Current liabilities	3,551,427	2,745,864	654,971	599,548	4,206,398	3,345,412
Non-current liabilities	5,986,888	4,892,380	2,720,572	2,424,104	8,707,460	7,316,484
Total Liabilities	9,538,315	7,638,244	3,375,543	3,023,652	12,913,858	10,661,896
Net assets:						
Invested in capital assets, net of related debt	15,094,719	14,530,867	1,328,658	1,387,655	16,423,377	15,918,522
Restricted net assets	3,990,594	4,987,365	1,085,399	1,581,212	5,075,993	6,568,577
Unrestricted net assets	(2,984,628)	(1,105,246)	376,908	188,354	(2,607,720)	(916,892)
Total Net Assets	$ 16,100,685	$ 18,412,986	$ 2,790,965	$ 3,157,221	$ 18,891,650	$ 21,570,207

The largest portion of the State's net assets (87%) represents *capital assets, net of related debt* of $16.4 billion. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt are planned to be provided from other sources, since the capital assets themselves are not typically used to liquidate these liabilities.

The State's net assets also include $5.1 billion (27%) of resources that are subject to external restrictions on how they may be used. The largest restrictions are by the State's Constitution for basic education funded by the earnings of the Land Endowments Fund and by federal regulations for unemployment insurance premiums from employers for funding the Unemployment Compensation Fund. Another major restriction is unspent debt instrument proceeds primarily for the acquisition and construction of federal, state, and local highways.

After accounting for the above net asset restrictions, the State has a remaining deficit of $2.6 billion (14%) reported as *unrestricted net assets*.

The State's net assets decreased $2.7 billion during the current fiscal year. This decrease was primarily caused by decreases in revenues for sales taxes, income taxes, and losses on trust land sales, while expenses for health and welfare and unemployment compensation increased. The net asset decrease was partially offset by federal stimulus funds through the American Recovery and Reinvestment Act of 2009. Refer to Note 4 on page 91 for explanation of business-type activities restatement.

State of Arizona-Primary Government
Changes in Net Assets for Fiscal Years June 30, 2009 and 2008
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	$ 806,833	$ 818,567	$ 2,196,190	$ 2,125,875	$ 3,003,023	$ 2,944,442
Operating grants and contribution	10,620,642	9,190,910	1,243,697	898,441	11,864,339	10,089,351
Capital grants and contributions	553,198	523,898	14,710	38,029	567,908	561,927
General revenues:						
Sales taxes	5,442,563	6,270,419	58,528	72,945	5,501,091	6,343,364
Income taxes	3,126,076	4,205,426	-	-	3,126,076	4,205,426
Tobacco taxes	370,073	413,333	-	-	370,073	413,333
Property taxes	32,564	36,732	-	-	32,564	36,732
Motor vehicle and fuel taxes	1,643,276	1,800,920	-	-	1,643,276	1,800,920
Other taxes	574,030	559,440	-	-	574,030	559,440
Unrestricted investment earnings	92,957	243,160	22,450	39,763	115,407	282,923
Unrestricted grants and contributions	12,440	13,574	-	-	12,440	13,574
Gain (loss) on sale of trust land	(165,696)	196,953	-	-	(165,696)	196,953
Miscellaneous revenue	222,712	214,751	45,786	64,564	268,498	279,315
Total Revenues	23,331,668	24,488,083	3,581,361	3,239,617	26,913,029	27,727,700
Expenses:						
General government	928,485	982,382	-	-	928,485	982,382
Health and welfare	12,055,439	10,884,297	-	-	12,055,439	10,884,297
Inspection and regulation	176,354	185,996	-	-	176,354	185,996
Education	6,084,342	6,242,173	-	-	6,084,342	6,242,173
Protection and safety	1,514,282	1,510,615	-	-	1,514,282	1,510,615
Transportation	695,070	670,173	-	-	695,070	670,173
Natural resources	228,430	250,258	-	-	228,430	250,258
Intergovernmental revenue sharing	2,755,710	3,023,836	-	-	2,755,710	3,023,836
Interest on long-term debt	222,851	179,795	-	-	222,851	179,795
Universities	-	-	3,290,033	3,227,481	3,290,033	3,227,481
Unemployment Compensation	-	-	1,086,330	356,333	1,086,330	356,333
Industrial Commission Special Fund	-	-	30,055	14,824	30,055	14,824
Lottery	-	-	395,950	372,740	395,950	372,740
Other business-type activities	-	-	142,229	162,300	142,229	162,300
Total Expenses	24,660,963	23,929,525	4,944,597	4,133,678	29,605,560	28,063,203
Excess (deficiency) before contributions, special items, extraordinary item, and transfers	(1,329,295)	558,558	(1,363,236)	(894,061)	(2,692,531)	(335,503)
Contributions to permanent endowments	-	-	4,014	3,927	4,014	3,927
Special items:						
Asset impairment of donated historical treasures	-	-	-	(20,100)	-	(20,100)
Intergovernmental transfer of Sundome Center for the Performing Arts	-	-	7,240	-	7,240	-
Extraordinary item:						
Insurance recovery, net of impairment loss	-	-	2,720	15,475	2,720	15,475
Transfers	(983,006)	(994,435)	983,006	994,435	-	-
Change in Net Assets	(2,312,301)	(435,877)	(366,256)	99,676	(2,678,557)	(336,201)
Net Assets - July 1	18,412,986	18,848,863	3,157,221	3,057,545	21,570,207	21,906,408
Net Assets - June 30	$ 16,100,685	$ 18,412,986	$ 2,790,965	$ 3,157,221	$ 18,891,650	$ 21,570,207

Change in Net Assets

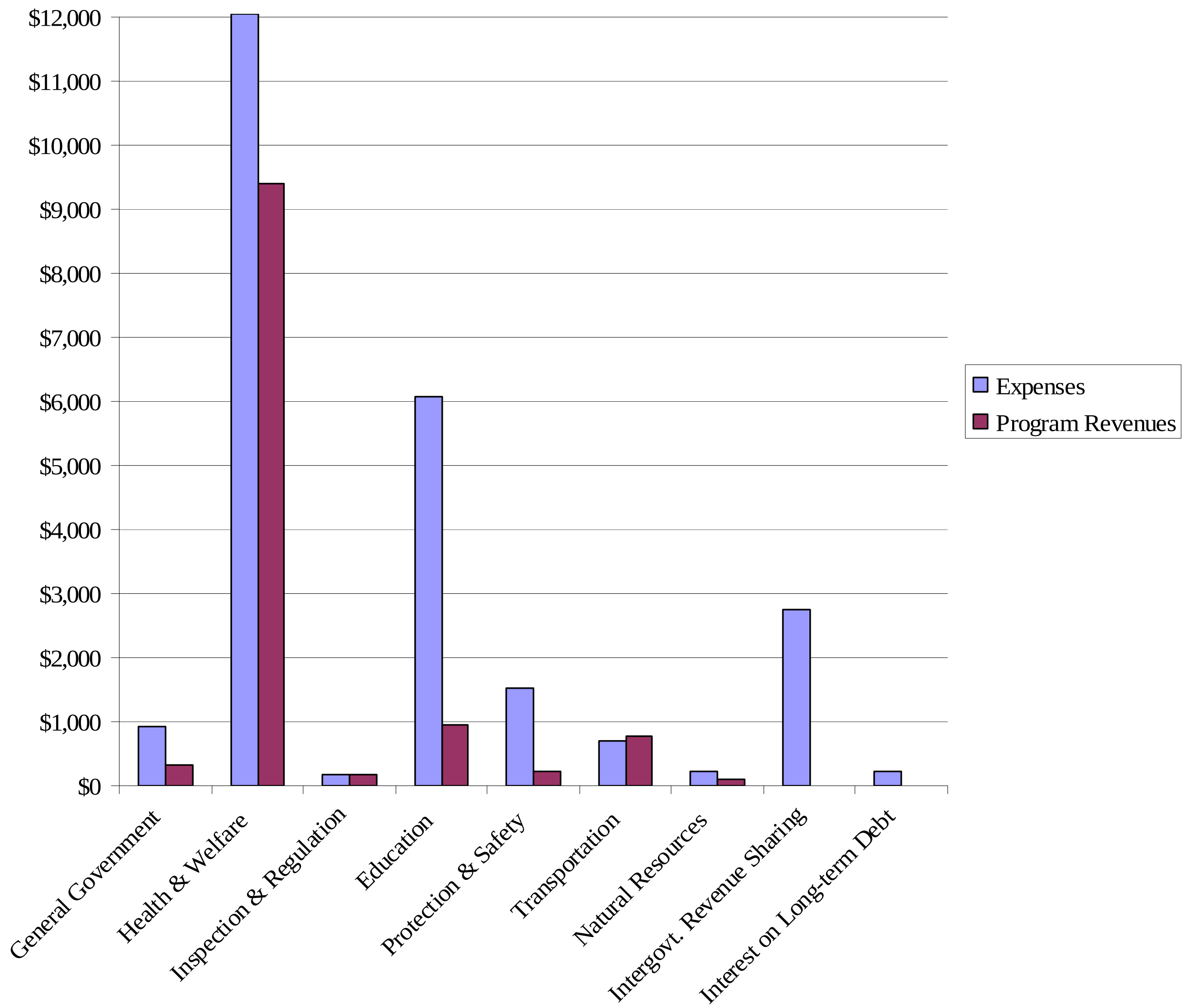
Governmental Activities – Net assets decreased by $2.3 billion, or 13%. This decrease was primarily attributed to decreases in earned general tax revenues and losses on State trust land sales, coupled with increased costs to the State's health and welfare programs. Reported income tax and sales tax revenues decreased by $1.1 billion, or 26%, and $827.856 million, or 13%, as compared to fiscal year 2008, respectively. The costs of the State's health and welfare increased $1.2 billion, or 11%, as compared to fiscal year 2008. Several key elements of the economy have led to the decreased general tax revenues, and increased health and welfare costs. Since the bursting of the housing bubble and ensuing financial crisis, Arizona has experienced significant economic decline including job losses, home price devaluation, and rising home mortgage foreclosures. Compounding the effects of the housing collapse and the resulting downturn in Arizona's economy is the use of income by businesses and consumers to reduce debt, instead of purchasing goods or services. Stagnant wages and the fear of unemployment have also resulted in constrained spending and increased savings by consumers. Arizona's unemployment rate increased from 5.5% June 30^{th}, 2008, to 8.7% June 30^{th}, 2009. Another significant contributor to the net asset decrease was a $362.649 million net decrease on the sale of State trust land. Many buyers bought at or near the peak of the real estate market and were unable to make their scheduled payments. Consequently, nine of the financed sales were canceled during the fiscal year. Some of the net asset decreases have been offset by a $1.4 billion, or 16%, increase in operating grant and contribution revenues, as compared to fiscal year 2008. These revenues partially consisted of federal stimulus funds through the American Recovery and Reinvestment Act of 2009.

A comparison of the net cost (income) of services by function for the State's governmental activities is shown below for fiscal years 2009 and 2008. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

Governmental Activities
(expressed in thousands)

	Total Cost of Services		Net Cost (Income) of Services	
	2009	2008	2009	2008
Functions/Programs:				
General government	$ 928,485	$ 982,382	$ 594,087	$ 698,543
Health and welfare	12,055,439	10,884,297	2,654,326	3,001,882
Inspection and regulation	176,354	185,996	4,577	8,825
Education	6,084,342	6,242,173	5,128,458	5,179,662
Protection and safety	1,514,282	1,510,615	1,277,463	1,245,745
Transportation	695,070	670,173	(86,556)	(82,861)
Natural resources	228,430	250,258	129,374	140,723
Intergovernmental revenue sharing	2,755,710	3,023,836	2,755,710	3,023,836
Interest on long-term debt	222,851	179,795	222,851	179,795
Total Governmental Activities	$ 24,660,963	$ 23,929,525	$ 12,680,290	$ 13,396,150

Expenses and Program Revenues
Governmental Activities for Fiscal Year 2009
(in millions of dollars)



Business-type Activities – The net assets decreased by $366.256 million, or 12%. This decrease was primarily caused by the net decrease in the Unemployment Compensation Fund of $453.993 million and partially offset with the net increase in the Universities Fund of $106.988 million. The Unemployment Compensation Fund had an increase in costs of sales and benefits of $729.997 million, which was partially offset by an increase in intergovernmental revenue of $324.689 million. The primary cause for the increase in the benefits paid was Arizona's unemployment rate increased from 5.5% June 30th, 2008, to 8.7% June 30th, 2009. This amounts to a decrease of 194,000 individuals employed than the previous fiscal year. The Universities Fund net increase was primarily attributed to a net student tuition and fees increase due to increased tuition rates and enrollment. Federal Stabilization Funds from the American Recovery and Reinvestment Act of 2009 were used to help offset reductions in State appropriations.

A comparison of the net cost (income) of services by function for the State's business-type activities is shown on the next page for fiscal years 2009 and 2008. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

Business-type Activities
(expressed in thousands)

	Total Cost of Services		Net Cost (Income) of Services	
	2009	2008	2009	2008
Functions/Programs:				
Universities	$ 3,290,033	$ 3,227,481	$ 1,129,521	$ 1,178,885
Unemployment Compensation	1,086,330	356,333	445,737	(741)
Industrial Commission				
Special Fund	30,055	14,824	5,135	(10,623)
Lottery	395,950	372,740	(88,536)	(100,197)
Other	142,229	162,300	(1,857)	4,009
Total Business-type Activities	$ 4,944,597	$ 4,133,678	$1,490,000	$ 1,071,333

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The general government functions are contained in the general, special revenue, debt service, capital projects, and permanent funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the State's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The General Fund is the chief operating fund of the State. At June 30, 2009, unreserved fund balance of the General Fund had a deficit of $1.4 billion, while total fund balance closed the year at a deficit of $978.278 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and other financing uses. Unreserved fund balance represents a negative 6% of total expenditures and other financing uses, while total fund balance represents a negative 4% of the same amount.

The fund balance of the State's General Fund decreased $1.3 billion during the fiscal year. The primary reason for the decrease in fund balance during the fiscal year is expenditures were $21.1 billion, while revenues were $19.5 billion. Although intergovernmental revenues increased $1.8 billion from the prior fiscal year, sales tax revenues decreased $780.330 million (14%) and income tax revenues decreased $1.0 billion (25%). In particular, sales taxes paid by retail stores and construction contractors decreased by 12% and 26%, respectively, when compared to fiscal year 2008 sales tax receipts. In addition, income tax collections decreased from the previous year as a result of the 194,000 decrease in the amount of individuals employed and a decrease in the amount of corporate income taxes collected during the fiscal year.

Health and welfare expenditures and intergovernmental revenue (including federal grants and county funding) increased by $1.1 billion, or 11%, and $1.8 billion, or 20%, as compared to fiscal year 2008, respectively. The increase in expenditures in fiscal year 2009 can be attributable to increased enrollment in the Arizona Health Care Cost Containment System's (AHCCCS) programs and associated provider rates. The AHCCCS program experienced the most significant enrollment growth since the Proposition 204 expansion in calendar years 2001 to 2003. During fiscal year 2009, overall program enrollment in the various AHCCCS programs increased 12.0%, primarily due to growth in the Social Security Act Title XIX Waiver Group childless adults and Title XIX families and children program populations. The AHCCCS sets capitation rates within actuarially sound risk bands as required by the Federal Balanced Budget Act of 1997. The capitation rates were increased by a weighted average of 7.3% for the contract period of October 2008 to September 2009. The intergovernmental revenue increase was partially due to the use of federal stimulus funds from the American Recovery and Reinvestment Act of 2009.

Education expenditures decreased by $241.280 million, or 4%, compared to fiscal year 2008. The decrease can be primarily attributed to a decrease in State assistance for kindergarten through twelfth grade (K-12) and University operating expenditures to address mid-year budget shortfalls.

Transportation and Aviation Planning, Highway Maintenance and Safety Fund

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds and grant anticipation notes, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation (ADOT). Total fund balance decreased $172.385 million during fiscal year 2009. The fund balance decrease was due, in part, to the transfer of $203.695 million to the General Fund due to House Bill 2209, Chapter 285, and Senate Bills 1001 and 1002, Chapters 1 and 2, respectively, which required the transfer in order to help the State balance the General Fund budget during Fiscal Year 2009. In addition, distributions to Arizona counties and cities decreased during fiscal year 2009 as collections for the Transportation and Aviation Planning, Highway Maintenance and Safety Fund decreased.

Land Endowments Fund

The fund was established when the federal government granted Arizona statehood. Both the State's Constitution and the federal government require that the land grants given to the State be maintained indefinitely, and the earnings from the land grants should be used for public education, primarily K-12. The Land Endowments Fund total fund balance decreased $348.591 million during fiscal year 2009. Endowment investments decreased $381.342 million, at fiscal year end, due to receipts from land sales of $143.674 million, a $39.276 million decrease for distribution of prior year land sale installments collected on loans defaulted in the current fiscal year, a $59.359 million decrease for annual distributions as required by the State's Constitution, and a net decrease in the fair value of investments of $403.213 million.

Proprietary funds

The business-type activities discussion for the fund level financial statements of the State's enterprise funds provide the same type of information found in the government-wide financial statements analysis on **page 27**.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budgetary Comparison Schedules for the major governmental funds are in the Required Supplementary Information section beginning on **page 131**. Differences between the original budget of $16.836 billion and the final amended budget of $16.781 billion resulted in a $55.006 million net decrease in appropriations for the General Fund, before adjustments. Some of the significant changes in the General Fund appropriations were:

1. $266.231 million increase due to prior fiscal year obligations that were paid in the current fiscal year per ARS §35-191

2. $272.000 million increase for the payment of the Department of Education's Basic State Aid and Additional State Aid to school districts that was deferred in fiscal year 2008

3. $300.000 million decrease for the deferral of the Department of Education's Basic State Aid and Additional State Aid payments to school districts

4. $123.000 million decrease for the Department of Education's K-12 formula payment reductions, including $21.000 million soft capital suspension

5. $41.300 million increase for the Department of Education's Arizona Structured English Immersion Fund

6. $37.441 million decrease to the AHCCCS primarily for agency budget reductions

7. $32.376 million decrease to the Department of Economic Security primarily for agency budget reductions

8. $142.000 million decrease for reductions to the Universities Fund appropriations

9. $100.000 million decrease for the deferral of appropriations to the Universities Fund

10. $31.384 million increase to the Universities Fund to make debt service payments associated with the financing of research infrastructure projects

11. $117.000 million increase to the School Facilities Board's (SFB) for new construction costs until SFB receives their newly authorized lease proceeds later in the fiscal year

12. $20.000 million increase for the Parks Board "Growing Smarter" transfer to the Land Conservation Fund per ARS §41-511.23 to provide grants to purchase State trust land for conservation purposes

The actual expenditures were less than the final budget by $751.777 million, after adjustments. Of this amount, $43.091 million will continue as legislative multiple fiscal year spending authority for fiscal years 2010 and beyond, depending upon the budgetary guidelines of the Legislature. The remaining $708.686 million represents the unused portion of the State's legislatively authorized annual operating budget.

Additional budgetary information can be found on pages 151-153 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets:

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2009 totaled $21.3 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 6%, with a 6% increase in capital assets used for governmental activities and a 3% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled $336.213 million.

Major capital asset activity during the current fiscal year included the following:

- The Universities' additions to capital assets totaled $329.203 million and included increased investments in instruction, research, student housing, athletic facilities, and other projects.

- The ADOT started or completed roads and bridges totaling $1.6 billion during the fiscal year.

For the government-wide financial statement presentation, all depreciable assets were depreciated from the acquisition date to the end of the current fiscal year. Capital asset purchases of the governmental funds are reported in the fund-level financial statements as expenditures.

Capital assets for the governmental and business-type activities as of June 30, 2009 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008, as restated	2009	2008, as restated
Land	$ 2,502,039	$ 2,513,888	$ 181,400	$ 166,613	$ 2,683,439	$ 2,680,501
Buildings	1,747,807	1,709,900	3,877,636	3,701,943	5,625,443	5,411,843
Improvements other than buildings	142,248	136,246	4,811	4,811	147,059	141,057
Equipment	760,820	772,238	1,345,615	1,282,525	2,106,435	2,054,763
Collections (non-depreciable)	-	-	17,882	15,853	17,882	15,853
Infrastructure	10,647,110	10,108,526	367,408	346,268	11,014,518	10,454,794
Construction in progress	3,282,323	2,719,856	131,054	125,230	3,413,377	2,845,086
Less accumulated depreciation	(1,222,790)	(1,158,917)	(2,521,193)	(2,333,375)	(3,743,983)	(3,492,292)
Total	$ 17,859,557	$ 16,801,737	$ 3,404,613	$ 3,309,868	$ 21,264,170	$ 20,111,605

As provided by GASB Statement 34, the State has elected to record its infrastructure assets, that the ADOT is responsible for maintaining, using the modified approach. Assets accounted for under the modified approach include 6,753 center lane miles (18,544 travel lane miles) and 4,648 bridges.

The State manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The State's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.74 was achieved for fiscal year 2009.

The State manages its bridges using the Arizona Bridge Information and Storage System. The State determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the State to maintain a Condition Rating Index (CRI) of 92.5% or better. In fiscal year 2009, a CRI of 93.4% was obtained.

In addition to many smaller projects, each of the following major highway construction projects in excess of $20.000 million were started during fiscal year 2009 (expressed in thousands):

Project Description	Contract Start Date	Contract Amount	Current Year Expenditures
Major widening on State Route Loop 202 from the Interstate 10 and State Route 51 interchange to State Route Loop 101 in Maricopa County.	11/17/08	$ 188,895	$ 45,158
Construction of new roads on State Route Loop 303 from Happy Valley Parkway to Lake Pleasant Parkway in Maricopa County.	11/17/08	100,416	29,771
Major widening of US 93 from Hoover Dam to Mile Post 17 in Mohave County.	10/28/08	71,270	17,546
Construction of new roads on State Route Loop 303 from Lake Pleasant Parkway to Interstate 17 in Maricopa County.	04/17/09	69,348	-
Construction of new roads on Interstate 10 in Pima County.	04/20/09	50,484	4,272
Construction of new roads on State Route 195 from Avenue B to 14th Street in Yuma County.	08/18/08	43,206	35,244
Reconstruction on State Route Loop 303 at the Cactus, Waddell, and Bell Road traffic interchanges in Maricopa County.	01/30/09	28,197	-
Construction of frontage road on State Route 85 in Maricopa County.	09/22/08	23,855	11,347
Reconstruction on State Route Loop 202 from State Route Loop 101 to Gilbert Road in Maricopa County.	02/23/09	20,565	4,151

In addition to many smaller projects, the following major highway construction projects had expenditures in excess of $20.000 million in fiscal year 2009 (expressed in thousands):

Project Description	Project Expenditures
Interstate 10 from Price Road to 29th Street in Pima County.	$ 97,772
Interstate 17 from Jomax Road to Carefree Highway in Maricopa County.	91,635
Interstate 10 from Sarival to State Route Loop 101 in Maricopa County.	54,908
State Route 195 from Avenue B to 14th Street in Yuma County.	54,655
State Route Loop 202 from the Interstate 10 and State Route 51 interchange to State Route Loop 101 in Maricopa County.	48,059
State Route Loop 101 from Princess Drive to State Route Loop 202 in Maricopa County.	36,374
State Route Loop 303 from Happy Valley Parkway to Lake Pleasant Parkway in Maricopa County.	34,588
State Route 179 south of Sedona in Coconino and Yavapai Counties.	30,979
Interstate 10 from the Picacho Peak interchange to the Pinal Air Park in Pinal County.	30,102
Construction of frontage road on State Route 85 in Maricopa County.	24,955
State Route Loop 101 from State Route Loop 202 (Red Mountain) to State Route Loop 202 (Santan) in Maricopa County.	24,259
State Route Loop 202 from the junction of Interstate 10 west to the junction of Interstate 10 south in Maricopa County.	22,849

Capital assets financed by debt instruments do not generate funds to repay the debt instruments.

More detailed information regarding capital assets are on pages 90 and 91.

Long-term debt:

The State issues no general obligation debt instruments. The Arizona Constitution, under Article 9, Section 5, provides that the State may contract debts not to exceed $350 thousand. This provision has been interpreted to restrict the State from pledging its credit as a sole payment for debts incurred for the operation of the State government. As a result, the State pledges either dedicated revenue streams or the constructed building or equipment acquired as security for the repayment of long-term debt instruments.

Major long-term debt activity during the current fiscal year included the following:

- The ADOT issued revenue bonds totaling $621.050 million to finance the costs of right-of-way purchase, design, and construction of federal, state, and local highways and to pay the costs of issuing the bonds.

- The Universities issued revenue bonds for $385.850 million to fund the acquisition, construction, or renovation of capital facilities and infrastructure and to pay capitalized interest on certain bonds.

- The ADOT issued $55.420 million of grant anticipation notes to pay a portion of the costs of certain controlled-access highways in Maricopa County and to pay the costs of issuance.

- The School Facilities Board issued $580.035 million of certificates of participation to finance the following: (i) finance the costs of acquiring leasehold interests in school sites and certain school facilities, which will be subleased to various school districts within the State, as well as the costs of other new school facilities, (ii) pay capitalized interest with respect to the 2008 COPs, and (iii) pay the costs of issuance.

State of Arizona-Primary Government
Outstanding Major Long-Term Debt as of June 30, 2009
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue bonds	$ 3,251,580	$ 2,759,070	$ 1,239,675	$ 902,255	$ 4,491,255	$ 3,661,325
Grant anticipation notes	329,650	298,280	-	-	329,650	298,280
Certificates of participation	1,649,870	1,135,640	872,829	903,843	2,522,699	2,039,483
Total	$ 5,231,100	$ 4,192,990	$ 2,112,504	$ 1,806,098	$ 7,343,604	$ 5,999,088

More detailed information regarding long-term debt begins on page 97.

ECONOMIC CONDITION AND OUTLOOK

Arizona's economy, along with the rest of the nation, continued to contract in fiscal year 2009, as problems in the financial and housing markets continued, along with continued decline in labor markets. As previously mentioned, since the bursting of the housing bubble and ensuing financial crisis, Arizona has experienced significant economic decline including job losses, home price devaluation and rising home mortgage foreclosures. Compounding the effects of the housing collapse and the resulting downturn in Arizona's economy is the use of income by businesses and consumers to reduce debt, instead of purchasing goods or services. Stagnant wages and the fear of unemployment have also resulted in constrained spending and increased savings by consumers. Arizona's unemployment rate increased from 5.5% June 30th, 2008, to 8.7% June 30th, 2009.

Arizona's economy is projected to continue losing jobs in calendar years 2009 and 2010. The Arizona Department of Commerce, Research Administration (RA), forecasts a loss of 195,800 jobs (-7.5%) for the calendar year 2009-2010 forecast period. However, RA expects employment in Arizona to show a gradual improvement with slowing job losses over the 2009-2010 calendar year forecast period (from losses of 178,500 in 2009 to losses of 17,300 in 2010). The primary reasons include a buildup of the inventory cycle; federal government economic stimulus spending; ongoing federal government expenditures in civilian and military sectors; federal government bailouts of financial services industries; and stable prices.

The State has recently experienced its worst economic downturn in at least 50 years. Over the period of fiscal year end 2007 through February 2010, the total revenue from the State's major tax sources (sales and use, individual and corporate) has decreased by approximately one-third. With revenues falling short of budgeted levels, the State's General Fund was faced with a fiscal year 2009 ending balance shortfall and approximately a $3.2 billion on-going structural deficit. The State Legislature has enacted a series of laws in response. Significant measures include deep cuts to education and health/welfare programs. Additionally, the State Legislature referred a temporary 1-cent increase in the transaction privilege tax to voters. The special election will be held on May 18, 2010. If approved, the increase would become effective June 1, 2010 and expire May 31, 2013. The State Legislature has already enacted laws for additional cuts to State spending authority that will be triggered if the temporary tax is not passed. Accordingly, the State has adopted a workable budget for fiscal year 2010 and 2011, and has made significant progress towards eliminating the long-term structural deficit.

The State will continue to use federal stimulus funds through The American Recovery and Reinvestment Act of 2009 (ARRA) as part of the measures to balance the budget. From fiscal year 2009 through fiscal year 2011, the State is scheduled to receive approximately $2.8 billion in ARRA funding, that is a direct help to the General Fund, to be used largely for education and for health/welfare programs. The State recorded $834.355 million in ARRA revenue in fiscal year 2009. Further, the decline in tax revenues has created problems in the management of the State's cash flow needs. As a result, throughout most of fiscal year 2010, the State Treasurer issued Treasurer's Warrant Notes (TWNs) in lieu of immediate redemption of warrants presented to the State Treasurer for payment of authorized General Fund expenditures. At May 7, 2010, the outstanding balance of the TWNs was approximately $594.316 million.

CONTACTING THE STATE COMPTROLLER'S OFFICE

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Arizona Department of Administration, General Accounting Office, Financial Reporting Section at (602) 542-5405. You may also access and print this report at http://www.gao.az.gov/financials/.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. Contact information regarding the component units begins on **page 70**.

GREAT SEAL OF THE STATE OF ARIZONA

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BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

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STATE OF ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2009
(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
ASSETS					
Current Assets:					
Cash	$ 5,681	$ 203,148	$ 208,829	$ -	$ 4,589
Cash with U.S. Treasury	-	602,590	602,590	-	-
Cash and pooled investments with State Treasurer	890,391	187,441	1,077,832	4,392	88,970
Restricted cash and pooled investments with State Treasurer	-	51,395	51,395	-	-
Cash held by trustee	-	-	-	-	2,607
Collateral investment pool	282,668	47,427	330,095	-	2,470
Short-term investments	-	97,644	97,644	-	111,538
Restricted investments held by trustee	-	-	-	-	19,868
Receivables, net of allowances:					
Taxes	560,259	68,975	629,234	-	-
Interest	159,330	3,682	163,012	-	12,466
Loans and notes	23,838	12,557	36,395	-	-
Patient accounts receivable	-	-	-	-	85,343
Other	159,726	114,810	274,536	-	46,430
Internal balances	(199,187)	199,187	-	-	-
Due from U.S. Government	860,299	64,658	924,957	-	-
Due from local governments	19,500	-	19,500	-	-
Due from others	24	-	24	-	-
Inventories, at cost	13,849	28,737	42,586	-	12,576
Other current assets	56,681	3,494	60,175	-	6,523
Total Current Assets	2,833,059	1,685,745	4,518,804	4,392	393,380
Noncurrent Assets:					
Restricted assets:					
Cash	48	18,560	18,608	-	-
Cash and pooled investments with State Treasurer	2,007,501	-	2,007,501	9,860	-
Cash held by trustee	59,087	93,479	152,566	-	-
Investments	2,337	32,512	34,849	-	-
Investments held by trustee	-	189,199	189,199	-	78,900
Receivables, net of allowances:					
Loans and notes	602,880	43,635	646,515	-	992,641
Other	-	8,959	8,959	-	-
Securities held in escheat	22,879	-	22,879	-	-
Investments	-	436,033	436,033	-	97,118
Endowment investments	2,236,330	234,168	2,470,498	-	-
Other noncurrent assets	15,322	19,605	34,927	-	53,025
Capital assets:					
Infrastructure, land, and other non-depreciable	16,416,151	330,336	16,746,487	-	114,448
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,443,406	3,074,277	4,517,683	-	155,273
Total Noncurrent Assets	22,805,941	4,480,763	27,286,704	9,860	1,491,405
Total Assets	25,639,000	6,166,508	31,805,508	14,252	1,884,785

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA

STATEMENT OF NET ASSETS

JUNE 30, 2009

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	$ 624,348	$ 155,459	$ 779,807	$ -	$ 56,265
Payable for securities purchased	-	5,878	5,878	-	-
Accrued liabilities	889,434	84,886	974,320	-	46,215
Obligations under securities loan agreements	282,668	47,427	330,095	-	2,470
Due to U.S. Government	6,238	10	6,248	-	-
Due to local governments	970,101	31	970,132	-	-
Due to others	166,348	96,585	262,933	-	-
Unearned deferred revenue	81,905	127,776	209,681	-	-
Current portion of accrued insurance losses	51,881	26,658	78,539	-	4,736
Current portion of long-term debt	305,674	95,065	400,739	-	37,055
Current portion of other long-term liabilities	172,830	15,196	188,026	-	8,580
Total Current Liabilities	3,551,427	654,971	4,206,398	-	155,321
Noncurrent Liabilities:					
Unearned deferred revenue	61,556	20,070	81,626	-	2,336
Contracts payable	-	13,985	13,985	-	-
Accrued insurance losses	307,932	351,862	659,794	-	10,385
Funds held for others	-	51,780	51,780	-	-
Long-term debt	5,487,004	2,227,802	7,714,806	-	1,078,032
Other long-term liabilities	130,396	55,073	185,469	-	10,818
Total Noncurrent Liabilities	5,986,888	2,720,572	8,707,460	-	1,101,571
Total Liabilities	9,538,315	3,375,543	12,913,858	-	1,256,892
		-			
NET ASSETS					
Invested in capital assets, net of related debt	15,094,719	1,328,658	16,423,377	-	35,879
Restricted for:					
Federal grants	34,345	-	34,345	-	-
Capital projects	532,766	3,578	536,344	-	-
Unemployment Compensation	-	619,003	619,003	-	-
Debt service	26,442	27,293	53,735	9,860	-
Permanent funds and University funds:					
Expendable	93,302	203,806	297,108	-	-
Nonexpendable	2,866,103	156,630	3,022,733	-	-
Loans and other financial assistance:					
Expendable	-	75,069	75,069	-	341,021
Other purposes	437,636	20	437,656	-	21,113
Unrestricted (deficit)	(2,984,628)	376,908	(2,607,720)	4,392	229,880
Total Net Assets	$ 16,100,685	$ 2,790,965	$ 18,891,650	$ 14,252	$ 627,893

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2009
(Expressed in Thousands)

ASSETS		
Cash and cash equivalent investments	$	77,216
Receivables:		
Pledges receivable		175,754
Other receivables		17,482
Total receivables		193,236
Investments:		
Investments in securities		839,827
Investments held in trust for Universities		85,422
Other investments		51,360
Total investments		976,609
Net direct financing leases		123,523
Property and equipment, net of accumulated depreciation		401,695
Licenses		5,559
Other assets		41,997
Total Assets		1,819,835
LIABILITIES		
Liability under Universities' endowment trust agreements		73,544
Bonds payable		661,474
Unearned revenue		33,108
Other liabilities		68,063
Total Liabilities		836,189
NET ASSETS		
Permanently restricted		665,707
Temporarily restricted		332,829
Unrestricted		(14,890)
Total Net Assets	$	983,646

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	$ 928,485	$ 199,011	$ 135,387	$ -
Health and welfare	12,055,439	92,770	9,308,088	255
Inspection and regulation	176,354	153,642	18,135	-
Education	6,084,342	41,079	914,805	-
Protection and safety	1,514,282	122,840	113,979	-
Transportation	695,070	138,520	90,618	552,488
Natural resources	228,430	58,971	39,630	455
Intergovernmental revenue sharing	2,755,710	-	-	-
Interest on long-term debt	222,851	-	-	-
Total Governmental Activities	24,660,963	806,833	10,620,642	553,198
Business-type Activities:				
Universities	3,290,033	1,272,694	873,108	14,710
Unemployment Compensation	1,086,330	270,859	369,734	-
Industrial Commission Special Fund	30,055	24,920	-	-
Lottery	395,950	484,486	-	-
Other	142,229	143,231	855	-
Total Business-type Activities	4,944,597	2,196,190	1,243,697	14,710
Total Primary Government	$ 29,605,560	$ 3,003,023	$ 11,864,339	$ 567,908
COMPONENT UNITS:				
Governmental Activities:				
Greater Arizona Development Authority	$ 5,620	$ -	$ -	$ -
Business-type Activities:				
Water Infrastructure Finance Authority	$ 42,520	$ 32,215	$ 20,035	$ -
University Medical Center	530,782	543,947	-	1,726
Arizona Power Authority	29,750	29,810	-	-
Total Business-type Activities	$ 603,052	$ 605,972	$ 20,035	$ 1,726

General Revenues:
Taxes:
Sales
Income
Tobacco
Property
Motor vehicle and fuel
Other
Unrestricted investment earnings
Unrestricted grants and contributions
(Loss) on sale of trust land
Miscellaneous
Contributions to permanent endowments
Special Item:
Intergovernmental transfer of Sundome Center for the Performing Arts
Extraodinary Item:
Insurance recovery, net of impairment loss
Transfers
Total General Revenues, Contributions, Special Item, Extraordinary Item, and Transfers
Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

The Notes to the Financial Statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			COMPONENT UNITS	
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
$ (594,087)		$ (594,087)		
(2,654,326)		(2,654,326)		
(4,577)		(4,577)		
(5,128,458)		(5,128,458)		
(1,277,463)		(1,277,463)		
86,556		86,556		
(129,374)		(129,374)		
(2,755,710)		(2,755,710)		
(222,851)		(222,851)		
(12,680,290)		(12,680,290)		
	$ (1,129,521)	(1,129,521)		
	(445,737)	(445,737)		
	(5,135)	(5,135)		
	88,536	88,536		
	1,857	1,857		
	(1,490,000)	(1,490,000)		
(12,680,290)	(1,490,000)	(14,170,290)		
			$ (5,620)	
				$ 9,730
				14,891
				60
				24,681
5,442,563	58,528	5,501,091	-	-
3,126,076	-	3,126,076	-	-
370,073	-	370,073	-	-
32,564	-	32,564	-	-
1,643,276	-	1,643,276	-	-
574,030	-	574,030	-	-
92,957	22,450	115,407	698	(6,668)
12,440	-	12,440	-	-
(165,696)	-	(165,696)	-	-
222,712	45,786	268,498	-	-
-	4,014	4,014	-	-
-	7,240	7,240	-	-
-	2,720	2,720	-	-
(983,006)	983,006	-	-	-
10,367,989	1,123,744	11,491,733	698	(6,668)
(2,312,301)	(366,256)	(2,678,557)	(4,922)	18,013
18,412,986	3,157,221	21,570,207	19,174	609,880
$ 16,100,685	$ 2,790,965	$ 18,891,650	$ 14,252	$ 627,893

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions	$ 12,769	$ 64,314	$ 26,490	$ 103,573
Rental revenue	46,289	-	-	46,289
Sales and services	35,095	89	-	35,184
Net investment income	(51,762)	(46,586)	(63,514)	(161,862)
Net assets released from restrictions	113,450	(94,379)	(19,071)	-
Capital lease revenue	113	-	-	113
Licensing revenue	2,309	-	-	2,309
Other revenues	21,773	4,304	34	26,111
Total Revenues	180,036	(72,258)	(56,061)	51,717
EXPENSES				
Program services:				
Payments to Universities	92,374	-	-	92,374
Leasing related expenses	8,883	-	-	8,883
Payments on behalf of Universities	18,478	-	-	18,478
Other program services	10,878	-	-	10,878
Personal services, operations, and administrative expenses	58,049	-	-	58,049
Fundraising expenses	8,823	-	-	8,823
Interest	25,064	-	-	25,064
Depreciation and amortization	18,089	-	-	18,089
Other expenses	8,866	-	-	8,866
Total Expenses	249,504	-	-	249,504
Decrease in net assets, before extraordinary items	(69,468)	(72,258)	(56,061)	(197,787)
Extraordinary Items:				
Gain on lease revaluation due to bond refunding	1,394	-	-	1,394
Loss on early debt extinguishment	(3,442)	-	-	(3,442)
Reclassification of net assets per change in law	-	5,678	(5,678)	-
Decrease in net assets, after extraordinary items	(71,516)	(66,580)	(61,739)	(199,835)
Net Assets - Beginning	57,022	404,068	722,396	1,183,486
Transfers	(356)	(4,694)	5,050	-
Cumulative effect of accounting change	(40)	35	-	(5)
Net Assets - Ending	$ (14,890)	$ 332,829	$ 665,707	$ 983,646

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS					
Cash	$ 1,425	$ -	$ 28	$ 3,496	$ 4,949
Cash and pooled investments with State Treasurer	-	10,620	94,427	656,928	761,975
Collateral investment pool	31,336	34,836	170,195	46,301	282,668
Receivables, net of allowances:					
Taxes	434,645	61,018	-	64,596	560,259
Interest	1,421	1,779	152,041	4,082	159,323
Loans and notes	-	9,789	616,929	-	626,718
Other	84,986	25,914	9,396	24,543	144,839
Due from U.S. Government	797,790	57,968	-	-	855,758
Due from local governments	19,500	-	-	-	19,500
Due from others	-	-	-	24	24
Due from other Funds	22,930	8	1,703	325,195	349,836
Inventories, at cost	3,560	7,447	-	95	11,102
Restricted assets:					
Cash	48	-	-	-	48
Cash and pooled investments with State Treasurer	425,757	700,224	-	881,520	2,007,501
Cash held by trustee	25,353	-	-	33,734	59,087
Investments	2,337	-	-	-	2,337
Securities held in escheat	22,879	-	-	-	22,879
Endowment investments	-	-	2,236,330	-	2,236,330
Other	135	50,816	-	12	50,963
Total Assets	$ 1,874,102	$ 960,419	$ 3,281,049	$ 2,040,526	$ 8,156,096
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	$ 291,455	$ 142,811	$ 51,426	$ 58,462	$ 544,154
Accrued liabilities	437,519	11,664	237	31,326	480,746
Obligations under securities loan agreements	31,336	34,836	170,195	46,301	282,668
Due to U.S. Government	6,238	-	-	-	6,238
Due to local governments	762,223	113,013	-	94,865	970,101
Due to others	166,250	-	1	97	166,348
Due to other Funds	552,964	4,774	26,211	14,056	598,005
Unavailable deferred revenue	535,315	19,789	763,272	954	1,319,330
Unearned deferred revenue	69,080	-	73,574	807	143,461
Total Liabilities	2,852,380	326,887	1,084,916	246,868	4,511,051
Fund Balances:					
Reserved for:					
Budget stabilization fund	2,767	-	-	-	2,767
Highway construction	-	522,795	-	781,986	1,304,781
Other construction	-	-	-	108,129	108,129
School facilities improvements	376,993	-	-	-	376,993
Permanent funds	-	-	2,196,040	-	2,196,040
Continuing appropriations	43,091	174,394	93	38,066	255,644
Debt service	-	-	-	27,115	27,115
Other fund balance reservations	252	7,447	-	-	7,699
Unreserved	(1,401,381)	(71,104)	-	-	(1,472,485)
Unreserved reported in:					
Non-major special revenue funds	-	-	-	838,362	838,362
Total Fund Balances	(978,278)	633,532	2,196,133	1,793,658	3,645,045
Total Liabilities and Fund Balances	$ 1,874,102	$ 960,419	$ 3,281,049	$ 2,040,526	$ 8,156,096

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2009

(Expressed in Thousands)

Total fund balances - governmental funds		$ 3,645,045
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		17,787,093
Certain receivables related to reimbursements are not available at year end and, therefore, are not reported in the governmental funds.		2,341
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,319,330
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		(326,657)
The allocation of the internal service fund accumulated net loss results in an amount due from business-type activities, which is not reported in the governmental funds.		46,193
Deferred issue costs are reported as current expenditures in the governmental funds. However, deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.		13,697
Long-term debt is not due and payable from current financial resources and, therefore, is not reported in the governmental funds. These amounts consist of:		
Revenue bonds	(3,251,580)	
Grant anticipation notes	(329,650)	
Certificates of participation	(1,649,870)	
Capital leases	(233,044)	
Installment purchase contracts	(6,343)	
Notes payable	(42,668)	
Premium on debt	(285,613)	
Deferred amount on refundings	9,171	(5,789,597)
Accrued liabilities for AHCCCS programmatic costs and reimbursements are not due and payable from current financial resources and, therefore, are not reported in the governmental funds.		(380,814)
Accrued interest on long-term obligations is not due and payable from current financial resources and, therefore, is not reported in the governmental funds.		(26,434)
Other long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. Those liabilities consist of:		
Compensated absences	(166,696)	
Pollution remediation obligations	(22,813)	(189,509)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. Those assets consist of:		
Other non-current assets		(3)
Net assets of governmental activities		$ 16,100,685

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES					
Taxes:					
Sales	$ 4,669,693	$ 219,164	$ -	$ 540,596	$ 5,429,453
Income	3,137,714	-	-	80	3,137,794
Tobacco	75,128	-	-	294,945	370,073
Property	20,589	11,975	-	-	32,564
Motor vehicle and fuel	-	1,672,151	-	-	1,672,151
Other	456,561	-	-	117,469	574,030
Intergovernmental	10,614,124	653,999	-	47,900	11,316,023
Licenses, fees, and permits	110,563	88,072	-	211,367	410,002
Earnings on investments	19,107	24,796	(410,911)	48,687	(318,321)
Sales and charges for services	88,198	936	37,809	27,728	154,671
Fines, forfeitures, and penalties	40,570	-	-	162,767	203,337
Gaming	5,973	-	-	78,167	84,140
Tobacco settlement	125,571	-	-	-	125,571
Proceeds from sale of trust land	-	-	143,674	-	143,674
Other	147,796	24,122	7,269	74,681	253,868
Total Revenues	19,511,587	2,695,215	(222,159)	1,604,387	23,589,030
EXPENDITURES					
Current:					
General government	766,236	-	-	147,030	913,266
Health and welfare	11,688,927	-	7,109	263,604	11,959,640
Inspection and regulation	55,210	-	-	119,423	174,633
Education	5,365,372	-	45,455	620,778	6,031,605
Protection and safety	1,350,340	-	7,349	103,003	1,460,692
Transportation	70	564,442	-	44,119	608,631
Natural resources	87,506	-	-	132,524	220,030
Intergovernmental revenue sharing	1,663,817	1,100,959	-	-	2,764,776
Debt service:					
Principal	55,057	412	-	180,502	235,971
Interest and other fiscal charges	52,189	5,423	-	180,818	238,430
Capital outlay	50,665	618,760	26	626,079	1,295,530
Total Expenditures	21,135,389	2,289,996	59,939	2,417,880	25,903,204
Excess (Deficiency) of Revenues Over Expenditures	(1,623,802)	405,219	(282,098)	(813,493)	(2,314,174)
OTHER FINANCING SOURCES (USES)					
Transfers in	815,357	2,898	8	430,004	1,248,267
Transfers out	(1,126,584)	(605,768)	(66,501)	(370,111)	(2,168,964)
Proceeds from sale of capital assets	-	2,127	-	-	2,127
Capital lease and installment purchase contracts	3,134	-	-	922	4,056
Proceeds from notes and loans	-	23,139	-	-	23,139
Bonds issued	-	-	-	621,050	621,050
Grant anticipation notes issued	-	-	-	55,420	55,420
Certificates of participation issued	580,035	-	-	-	580,035
Premium on debt issued	11,960	-	-	58,123	70,083
Total Other Financing Sources (Uses)	283,902	(577,604)	(66,493)	795,408	435,213
Net Change in Fund Balances	(1,339,900)	(172,385)	(348,591)	(18,085)	(1,878,961)
Fund Balances - Beginning	361,622	805,917	2,544,724	1,811,743	5,524,006
Fund Balances - Ending	$ (978,278)	$ 633,532	$ 2,196,133	$ 1,793,658	$ 3,645,045

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (1,878,961)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	1,295,530	
Infrastructure and land adjustment	(128,578)	
Depreciation expense	(104,243)	1,062,709
The net expense of internal service funds is included with governmental activities in the Statement of Activities.		(61,589)
Some revenues reported in the Statement of Activities are not currently available at year-end and are not reported as revenue in the governmental funds.		
Sales taxes	13,110	
Tobacco settlement	2,138	
Accrued interest on land sales' contracts	35,025	
Operating grants	15,630	
Other revenue	9,118	75,021
Certain revenues that are reported as resources in the funds, but were earned in prior fiscal years, are not reported in the Statement of Activities.		
Income taxes	(11,718)	
Right-of-way lease revenue	(10,689)	(22,407)
Trust land sales are financed with long-term mortgages. In the Statement of Activities, the gain on sale of trust land is reported, whereas in the governmental funds, the proceeds from the collection of mortgage payments are reported. In FY 2009, mortgage payments exceeded gains resulting from current year land sales. Land sale defaults also resulted in write-offs of receivables deemed uncollectible. Write off of long-term mortgage receivables related to land sales defaults are not reported in the governmental funds.		
Mortgage payment proceeds	(34,906)	
Land sale defaults	(274,464)	(309,370)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
AHCCCS accrued programmatic costs	(52,960)	
Pollution remediation obligations	(22,813)	(75,773)

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

(Expressed in Thousands)

Certain expenditures that are reported in the governmental funds in the current year, but were incurred in prior fiscal years, are not reported in the Statement of Activities.		
Compensated absences		136
Bond proceeds provide current financial resources to the governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:		
Bonds issued	(621,050)	
Grant anticipation notes issued	(55,420)	
Certificates of participation issued	(580,035)	
Proceeds from notes and loans	(23,139)	
Bond issuance costs	3,967	
Premium on debt issued	(70,083)	(1,345,760)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Debt service principal	235,971	
Debt premium/discount amortization	27,286	
Amortization of bond issuance costs	(982)	
Amortization of deferred amount	(3,974)	258,301
Accrued interest on long-term obligations is not due and payable from current financial resources and, therefore, is not reported in the governmental funds.		(10,552)
Some capital asset additions were financed through capital leases and installment purchase contracts. Such financing arrangements are reported as an other financing source in the governmental funds, however, these amounts are reported as liabilities in the Statement of Net Assets.		(4,056)
Change in net assets of governmental activities		$ (2,312,301)

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
ASSETS					
Current Assets:					
Cash	$ 156,250	$ -	$ 44,961	$ -	$ 1,937
Cash with U.S. Treasury	-	602,590	-	-	-
Cash and pooled investments with State Treasurer	119,807	-	6,961	35,538	25,135
Restricted cash and pooled investments with State Treasurer	-	-	-	-	51,395
Collateral investment pool	-	-	44,736	-	2,691
Short-term investments	97,541	-	-	-	103
Receivables, net of allowances:					
Taxes	-	65,737	3,238	-	-
Interest	989	-	2,198	-	495
Loans and notes	4,166	-	-	-	8,391
Other	78,074	17,140	4,293	5,783	9,520
Due from U.S. Government	64,423	-	-	-	235
Due from other Funds	254,138	-	-	-	86
Inventories, at cost	20,260	-	-	2,367	6,110
Other current assets	3,146	-	-	-	348
Total Current Assets	798,794	685,467	106,387	43,688	106,446
Noncurrent Assets:					
Restricted assets:					
Cash	18,560	-	-	-	-
Cash held by trustee	93,479	-	-	-	-
Investments	32,512	-	-	-	-
Investments held by trustee	189,199	-	-	-	-
Receivables, net of allowances:					
Loans and notes	27,975	-	-	-	15,660
Other	8,959	-	-	-	-
Investments	174,135	-	261,898	-	-
Endowment investments	234,168	-	-	-	-
Other noncurrent assets	11,275	-	-	8,330	-
Capital assets:					
Land and other non-depreciable	324,195	-	2,997	991	2,153
Buildings, equipment, and other depreciable, net of accumulated depreciation	3,034,786	-	16,300	2,797	20,394
Total Noncurrent Assets	4,149,243	-	281,195	12,118	38,207
Total Assets	4,948,037	685,467	387,582	55,806	144,653

The Notes to the Financial Statements are an integral part of this statement.

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
$ 203,148	$ 732
602,590	-
187,441	128,417
51,395	-
47,427	-
97,644	-
68,975	-
3,682	8
12,557	-
114,810	14,887
64,658	2,200
254,224	3,956
28,737	2,747
3,494	5,718
1,740,782	158,665
18,560	-
93,479	-
32,512	-
189,199	-
43,635	-
8,959	-
436,033	-
234,168	-
19,605	1,625
330,336	548
3,074,277	71,916
4,480,763	74,089
6,221,545	232,754

(Continued)

STATE OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	$ 139,855	$ -	$ 4,309	$ 4,532	$ 6,763
Payable for securities purchased	-	-	5,878	-	-
Accrued liabilities	62,216	20,464	-	-	2,206
Obligations under securities loan agreements	-	-	44,736	-	2,691
Due to U.S. Government	-	10	-	-	-
Due to local governments	-	-	-	-	31
Due to others	18,863	45,792	-	31,930	-
Due to other Funds	-	198	-	8,645	1
Unearned deferred revenue	118,606	-	-	-	9,170
Current portion of accrued insurance losses	-	-	26,658	-	-
Current portion of long-term debt	94,982	-	-	-	83
Current portion of other long-term liabilities	14,097	-	-	308	791
Total Current Liabilities	448,619	66,464	81,581	45,415	21,736
Noncurrent Liabilities:					
Unearned deferred revenue	20,070	-	-	-	-
Contracts payable	-	-	-	-	13,985
Accrued insurance losses	-	-	351,862	-	-
Funds held for others	51,780	-	-	-	-
Long-term debt	2,227,576	-	-	-	226
Other long-term liabilities	54,833	-	-	-	240
Total Noncurrent Liabilities	2,354,259	-	351,862	-	14,451
Total Liabilities	2,802,878	66,464	433,443	45,415	36,187
NET ASSETS					
Invested in capital assets, net of related debt	1,283,335	-	19,297	3,788	22,238
Restricted for:					
Capital projects	3,578	-	-	-	-
Unemployment compensation	-	619,003	-	-	-
Debt service	27,293	-	-	-	-
University funds:					
Expendable	203,806	-	-	-	-
Nonexpendable	156,630	-	-	-	-
Loans and other financial assistance:					
Expendable	-	-	-	-	75,069
Other	-	-	-	-	20
Unrestricted (deficit)	470,517	-	(65,158)	6,603	11,139
Total Net Assets	$ 2,145,159	$ 619,003	$ (45,861)	$ 10,391	$ 108,466

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Net assets of business-type activities

The Notes to the Financial Statements are an integral part of this statement.

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
$ 155,459	$ 80,192
5,878	-
84,886	1,441
47,427	-
10	-
31	-
96,585	-
8,844	1,167
127,776	-
26,658	51,881
95,065	2,594
15,196	9,408
663,815	146,683
20,070	-
13,985	-
351,862	307,932
51,780	-
2,227,802	487
55,073	104,309
2,720,572	412,728
3,384,387	559,411
1,328,658	69,383
3,578	-
619,003	-
27,293	-
203,806	-
156,630	-
75,069	-
20	-
423,101	(396,040)
$ 2,837,158	$ (326,657)
(46,193)	
$ 2,790,965	

STATE OF ARIZONA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
OPERATING REVENUES					
Sales and charges for services:					
Student tuition and fees, net of scholarship allowances of $251,177	$ 880,989	$ -	$ -	$ -	$ -
Auxiliary enterprises, net of scholarship allowances of $12,011	324,675	-	-	-	-
Educational department	67,030	-	-	-	-
Lottery	-	-	-	484,486	-
Other	-	-	-	-	141,470
Unemployment assessments	-	268,809	-	-	-
Workers' compensation assessments	-	-	13,717	-	-
Intergovernmental	467,797	330,100	-	-	855
Nongovernmental grants and contracts	114,580	-	-	-	-
Licenses, fees, and permits	-	-	-	-	633
Earnings on investments	-	-	-	-	1,128
Fines, forfeitures, and penalties	-	2,050	-	-	-
Settlement Income	-	-	11,203	-	-
Other	31,409	18	-	551	1,368
Total Operating Revenues	1,886,480	600,977	24,920	485,037	145,454
OPERATING EXPENSES					
Cost of sales and benefits	774,721	1,086,330	24,387	332,135	95,515
Interest	-	-	-	-	1,877
Scholarships and fellowships	159,755	-	-	-	-
Personal services	2,031,987	-	-	6,107	27,423
Contractual services	-	-	-	16,081	8,392
Depreciation and amortization	214,156	-	1,305	356	1,969
Insurance	-	-	-	56	300
Other	-	-	-	3,073	5,612
Total Operating Expenses	3,180,619	1,086,330	25,692	357,808	141,088
Operating Income (Loss)	(1,294,139)	(485,353)	(772)	127,229	4,366
NON-OPERATING REVENUES (EXPENSES)					
Share of State sales tax revenues	58,528	-	-	-	-
Intergovernmental	186,469	-	-	-	-
Gifts and donations	164,636	-	-	-	-
Gain (loss) on sale of capital assets	(59)	-	-	-	191
Investment income (loss)	37,315	39,634	(17,920)	752	2,303
Endowment earnings on investments	(60,374)	-	-	-	-
Other non-operating revenue	10,118	-	1,790	-	400
Distributions to local governments	-	-	-	(38,142)	-
Interest expense	(93,760)	-	-	-	(49)
Other non-operating expense	(6,186)	-	(4,363)	-	(1,092)
Total Non-Operating Revenues (Expenses)	296,687	39,634	(20,493)	(37,390)	1,753
Income (Loss) Before Contributions, Special Item, Extraordinary Item, and Transfers	(997,452)	(445,719)	(21,265)	89,839	6,119
Capital grants and contributions	14,710	-	-	-	-
Contributions to permanent endowments	4,014	-	-	-	-
Special Item:					
Intergovernmental transfer of Sundome Center for the Performing Arts	7,240	-	-	-	-
Extraordinary Item:					
Insurance recovery, net of impairment loss	2,720	-	-	-	-
Transfers in	1,075,756	-	6,000	-	3,397
Transfers out	-	(8,274)	-	(90,938)	(2,935)
Change in Net Assets	106,988	(453,993)	(15,265)	(1,099)	6,581
Total Net Assets - Beginning	2,038,171	1,072,996	(30,596)	11,490	101,885
Total Net Assets - Ending	$ 2,145,159	$ 619,003	$ (45,861)	$ 10,391	$ 108,466

Change in net assets of enterprise funds
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Change in net assets of business-type activities

The Notes to the Financial Statements are an integral part of this statement.

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
$ 880,989	$ -
324,675	-
67,030	-
484,486	-
141,470	905,146
268,809	-
13,717	-
798,752	-
114,580	-
633	-
1,128	-
2,050	-
11,203	-
33,346	55
3,142,868	905,201
2,313,088	779,838
1,877	-
159,755	-
2,065,517	33,357
24,473	35,580
217,786	14,184
356	42,957
8,685	9,964
4,791,537	915,880
(1,648,669)	(10,679)
58,528	-
186,469	-
164,636	-
132	(104)
62,084	93
(60,374)	-
12,308	262
(38,142)	-
(93,809)	(168)
(11,641)	(281)
280,191	(198)
(1,368,478)	(10,877)
14,710	2,129
4,014	-
7,240	-
2,720	-
1,085,153	1,087
(102,147)	(63,396)
(356,788)	(71,057)
3,193,946	(255,600)
$ 2,837,158	$ (326,657)
$ (356,788)	
(9,468)	
$ (366,256)	

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ -	$ -	$ -	$ 249,898	$ 140,527
Receipts from assessments	-	268,587	15,457	-	-
Receipts from student tuition and fees	861,623	-	-	-	-
Receipts from sales and services of auxiliary enterprises	319,920	-	-	-	-
Receipts from sales and services of educational departments	74,653	-	-	-	-
Receipts from interfund services / premiums	-	-	-	-	-
Receipts from grants and contracts	611,781	330,100	-	-	957
Receipts from student loans collected	9,341	-	-	-	-
Receipts from repayment of loans to local governments	-	-	-	-	14,067
Receipts from settlement income	-	-	11,203	-	-
Receipts from other Funds	-	-	-	-	33,900
Payments to suppliers, prize winners, claimants, insurance companies, or beneficiaries	(753,189)	(1,061,358)	(31,146)	(127,329)	(108,949)
Payments to employees	(2,033,295)	-	-	(6,129)	(27,593)
Payments to retirees	-	-	-	-	-
Payments for scholarships and fellowships	(152,502)	-	-	-	-
Payments for student loans issued	(6,277)	-	-	-	-
Payments for loans to local governments	-	-	-	-	(3,982)
Payments to other funds	-	-	-	-	(20,000)
Other receipts (payments)	31,370	2,068	-	10,542	(1,955)
Net Cash Provided (Used) by Operating Activities	(1,036,575)	(460,603)	(4,486)	126,982	26,972
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Custodial funds received	306,495	-	-	-	-
Office rental receipts	-	-	1,790	-	-
Share of State sales tax receipts	63,350	-	-	-	-
Grants and contributions received	925,992	-	-	-	-
Transfers from other Funds	783,274	-	6,000	-	3,396
Custodial funds disbursed	(288,837)	-	-	-	-
Grants and contributions disbursed	(557,209)	-	-	-	-
Distributions to local governments	-	-	-	(38,142)	-
Payments of interfund loans	-	-	-	-	(54,047)
Transfers to other Funds	-	(8,516)	-	(109,172)	(2,935)
Other receipts (payments)	25,133	-	(2,733)	-	(35)
Net Cash Provided (Used) by Non-capital Financing Activities	1,258,198	(8,516)	5,057	(147,314)	(53,621)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	558	-	-	-	2
Proceeds from capital debt, installment purchase contracts, and capital leases	399,874	-	-	-	-
Capital grants and contributions received	9,928	-	-	-	-
Transfers from other funds	34,625	-	-	-	-
Acquisition and construction of capital assets	(314,178)	-	(162)	(142)	(430)
Interest paid on capital debt, installment purchase contracts, and capital leases	(90,897)	-	-	-	(48)
Principal paid on capital debt, installment purchase contracts, and capital leases	(90,318)	-	-	-	(80)
Other receipts (payments)	-	-	(45)	-	400
Net Cash (Used) by Capital and Related Financing Activities	(50,408)	-	(207)	(142)	(156)

The Notes to the Financial Statements are an integral part of this statement.

	GOVERNMENTAL ACTIVITIES -
TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
$ 390,425	$ -
284,044	-
861,623	-
319,920	-
74,653	-
-	902,496
942,838	-
9,341	-
14,067	-
11,203	-
33,900	-
(2,081,971)	(841,953)
(2,067,017)	(32,897)
-	(11,040)
(152,502)	-
(6,277)	-
(3,982)	-
(20,000)	
42,025	14
(1,347,710)	16,620
306,495	-
1,790	-
63,350	-
925,992	-
792,670	1,087
(288,837)	-
(557,209)	-
(38,142)	-
(54,047)	-
(120,623)	(63,396)
22,365	(278)
1,053,804	(62,587)
560	1,377
399,874	-
9,928	-
34,625	-
(314,912)	(8,913)
(90,945)	(166)
	-
(90,398)	(2,797)
355	258
(50,913)	(10,241)

(Continued)

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	338,311	-	232,295	-	-
Interest and dividends from investments	18,984	39,634	11,602	162	2,479
Change in cash collateral received from securities lending transactions	-	-	(3,074)	-	2,691
Purchase of investments	(554,373)	-	(227,729)	-	(4)
Other (payments)	-	-	(1,056)	-	(61)
Net Cash Provided (Used) by Investing Activities	(197,078)	39,634	12,038	162	5,105
Net Increase (Decrease) in Cash and Cash Equivalents	(25,863)	(429,485)	12,402	(20,312)	(21,700)
Cash and Cash Equivalents - Beginning	413,959	1,032,075	84,256	55,850	102,858
Cash and Cash Equivalents - Ending	$ 388,096	$ 602,590	$ 96,658	$ 35,538	$ 81,158

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
Operating income (loss)	$ (1,294,139)	$ (485,353)	$ (772)	$ 127,229	$ 4,366
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	214,156	-	1,305	356	1,969
Interest expense	-	-	-	-	1,877
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	18,522	(7,038)	1,458	(20)	9,055
(Increase) decrease in due from U.S. Government	-	-	-	-	102
(Increase) decrease in due from other Funds	-	-	-	-	33,893
(Increase) decrease in inventories, at cost	(896)	-	-	1,147	944
(Increase) decrease in other assets	6,063	-	-	(582)	110
Increase (decrease) in accounts payable	(12,565)	-	(2,859)	1,195	3,618
Increase (decrease) in accrued liabilities	12,669	(464)	-	(2,343)	(7,097)
(Decrease) in due to U.S. Government	-	(265)	-	-	-
Increase in due to local governments	-	-	-	-	31
Increase in due to others	-	32,517	-	-	-
(Decrease) in due to other Funds	-	-	-	-	(19,999)
Increase (decrease) in deferred revenue	19,615	-	-	-	(1,922)
(Decrease) in accrued insurance losses	-	-	(3,618)	-	-
Increase in other liabilities	-	-	-	-	25
Net Cash Provided (Used) by Operating Activities	$ (1,036,575)	$ (460,603)	$ (4,486)	$ 126,982	$ 26,972

SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
Gifts and conveyances of capital assets	$ 1,995	$ -	$ -	$ -	$ -
(Loss) on disposal of capital assets, net	(3,203)	-	-	-	-
Change in fair value of investments	(21,611)	-	(30,206)	-	366
Unrealized loss on endowments	(20,350)	-	-	-	-
Amortization of bond discount and issuance costs	(2,300)	-	-	-	-
Amortization of bond premium	1,487	-	-	-	-
Intergovernmental transfer of capital assets	7,240	-	-	-	-
Amortization of deferred rent	4,900	-	-	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	$ (31,842)	$ -	$ (30,206)	$ -	$ 366

The Notes to the Financial Statements are an integral part of this statement.

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
570,606	-
72,861	91
(383)	-
(782,106)	-
(1,117)	-
(140,139)	91
(484,958)	(56,117)
1,688,998	185,266
$ 1,204,040	$ 129,149
$ (1,648,669)	$ (10,679)
217,786	14,184
1,877	
21,977	(283)
102	(387)
33,893	(2,016)
1,195	847
5,591	(2,902)
(10,611)	(5,349)
2,765	480
(265)	-
31	-
32,517	-
(19,999)	(248)
17,693	-
(3,618)	(4,114)
25	27,087
$ (1,347,710)	$ 16,620
$ 1,995	$ 2,129
(3,203)	-
(51,451)	-
(20,350)	-
(2,300)	-
1,487	-
7,240	-
4,900	-
$ (61,682)	$ 2,129

STATE OF ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUSTS	AGENCY FUNDS
ASSETS			
Cash	$ 110,162	$ -	$ 28,017
Cash and pooled investments with State Treasurer	-	-	220,709
Prepaid benefits	566	-	-
Short-term investments	-	-	4,487
Receivables, net of allowances:			
Accrued interest and dividends	70,691	5,790	119
Securities sold	231,792	-	-
Forward contract receivable	562,074	-	-
Contributions	65,974	-	-
Court fees	833	-	-
Due from other Funds	2,537	-	-
Miscellaneous receivables	8,790	-	-
Total receivables	942,691	5,790	119
Due from others	-	-	80,168
Investments, at fair value:			
Temporary investments	1,166,821	-	-
Temporary investments from securities lending	3,422,623	-	-
U.S. Government securities	3,167,443	1,355,543	-
Corporate bonds	3,896,929	6,607	-
Corporate notes	-	535,044	-
Corporate stocks	16,494,304	-	-
Real estate mortgages and contracts	577,792	-	-
Collateral investment pool	820,815	114,534	-
Repurchase agreements	-	2,353,475	-
Money market mutual funds	-	14,492	-
Other investments	1,132,216	-	-
Total investments	30,678,943	4,379,695	-
Custodial securities in safekeeping	-	-	3,468,285
Other assets	-	-	8,816
Property and equipment, net of accumulated depreciation	4,901	-	-
Total Assets	31,737,263	4,385,485	3,810,601
LIABILITIES			
Accounts payable and other current liabilities	621,948	-	-
Payable for securities purchased	533,836	3,077	-
Obligation under securities loan agreements	4,243,438	114,534	-
Due to local governments	-	9,764	155,718
Due to others	-	-	3,654,883
Due to other Funds	2,537	-	-
Total Liabilities	5,401,759	127,375	3,810,601
NET ASSETS			
Held in trust for:			
Pension benefits	26,335,504	-	-
Pool participants	-	4,258,110	-
Total Net Assets	$ 26,335,504	$ 4,258,110	$ -

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS:		
Member contributions	$ 1,050,472	$
Employer contributions	1,271,305	
Member purchase of service credit	77,562	
Court fees	8,000	
Investment income (loss):		
Net (decrease) in fair value of investments	(6,160,669)	(26,896)
Interest income	311,994	58,627
Dividends	382,347	-
Real estate	(175,091)	-
Other investment income	(56,619)	-
Securities lending income	34,481	30
Total investment income (loss)	(5,663,557)	31,761
Less investment expenses:		
Investment activity expenses	127,793	2,960
Securities lending expenses	32,780	24
Net investment income (loss)	(5,824,130)	28,777
Capital share and individual account transactions:		
Shares sold	-	7,151,059
Reinvested interest income	-	62,540
Shares redeemed	-	(7,848,043)
Net capital share and individual account transactions	-	(634,444)
Other additions	4,545	-
Total Additions	(3,412,246)	(605,667)
DEDUCTIONS:		
Retirement and disability benefits	2,576,454	-
Death benefits	30,378	-
Refunds to withdrawing members, including interest	143,343	-
Administrative expense	37,334	-
Dividends to investors	-	56,509
Other deductions	8,019	-
Total Deductions	2,795,528	56,509
Change in net assets held in trust for:		
Pension benefits	(6,207,774)	-
Pool participants	-	(662,176)
Net Assets - Beginning	32,543,278	4,920,286
Net Assets - Ending	$ 26,335,504	$ 4,258,110

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA

COMBINING STATEMENT OF NET ASSETS

COMPONENT UNITS - PROPRIETARY FUNDS

JUNE 30, 2009

(Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	TOTAL
ASSETS				
Current Assets:				
Cash	$ -	$ 4,589	$ -	$ 4,589
Cash and pooled investments with State Treasurer	82,840	-	6,130	88,970
Cash held by trustee	2,607	-	-	2,607
Collateral investment pool	2,470	-	-	2,470
Short-term investments	-	111,538	-	111,538
Restricted investments held by trustee	-	16,493	3,375	19,868
Receivables, net of allowances:				
Interest	12,444	17	5	12,466
Patient accounts receivable	-	85,343	-	85,343
Other	5,791	37,181	3,458	46,430
Inventories, at cost	-	12,576	-	12,576
Other current assets	-	3,829	2,694	6,523
Total Current Assets	106,152	271,566	15,662	393,380
Noncurrent Assets:				
Restricted investments held by trustee	-	72,303	6,597	78,900
Loans and notes receivable, net of allowances	992,641	-	-	992,641
Investments	97,118	-	-	97,118
Other noncurrent assets	4,254	15,375	33,396	53,025
Capital assets:				
Land and other non-depreciable	-	114,448	-	114,448
Buildings, equipment, and other depreciable	101	399,223	1,328	400,652
Less: accumulated depreciation	(101)	(244,121)	(1,157)	(245,379)
Total Noncurrent Assets	1,094,013	357,228	40,164	1,491,405
Total Assets	1,200,165	628,794	55,826	1,884,785
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	-	51,193	5,072	56,265
Accrued liabilities	9,059	36,566	590	46,215
Obligations under securities loan agreements	2,470	-	-	2,470
Current portion of accrued insurance losses	-	4,736	-	4,736
Current portion of long-term debt	29,095	4,145	3,815	37,055
Current portion of other long-term liabilities	65	8,444	71	8,580
Total Current Liabilities	40,689	105,084	9,548	155,321
Noncurrent Liabilities:				
Unearned deferred revenue	2,336	-	-	2,336
Accrued insurance losses	-	10,385	-	10,385
Long-term debt	755,976	279,843	42,213	1,078,032
Other long-term liabilities	-	10,818	-	10,818
Total Noncurrent Liabilities	758,312	301,046	42,213	1,101,571
Total Liabilities	799,001	406,130	51,761	1,256,892
NET ASSETS				
Invested in capital assets, net of related debt	-	35,708	171	35,879
Restricted for:				
Loans and other financial assistance	341,021	-	-	341,021
Other	-	21,113	-	21,113
Unrestricted	60,143	165,843	3,894	229,880
Total Net Assets	$ 401,164	$ 222,664	$ 4,065	$ 627,893

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
COMPONENT UNITS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	TOTAL
OPERATING REVENUES				
Sales and charges for services	$ -	$ 543,947	$ 29,810	$ 573,757
Intergovernmental	20,035	-	-	20,035
Licenses, fees, and permits	12,690	-	-	12,690
Earnings on investments	19,525	-	-	19,525
Total Operating Revenues	52,250	543,947	29,810	626,007
OPERATING EXPENSES				
Cost of sales and benefits	-	120,011	28,095	148,106
Interest on program loans	34,098	-	-	34,098
Personal services	1,262	245,634	-	246,896
Contractual services	787	98,227	-	99,014
Aid to local governments	916	-	-	916
Depreciation and amortization	-	23,593	32	23,625
Insurance	-	4,522	-	4,522
Other	5,457	30,783	1,506	37,746
Total Operating Expenses	42,520	522,770	29,633	594,923
Operating Income	9,730	21,177	177	31,084
NON-OPERATING REVENUES (EXPENSES)				
Investment income (loss)	7,564	(14,431)	199	(6,668)
Interest expense	-	(6,650)	(117)	(6,767)
Other non-operating expense	-	(1,362)	-	(1,362)
Total Non-Operating Revenues (Expenses)	7,564	(22,443)	82	(14,797)
Income (Loss) Before Contributions	17,294	(1,266)	259	16,287
Capital grants and contributions	-	1,726	-	1,726
Change in Net Assets	17,294	460	259	18,013
Total Net Assets - Beginning	383,870	222,204	3,806	609,880
Total Net Assets - Ending	$ 401,164	$ 222,664	$ 4,065	$ 627,893

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA

COMBINING STATEMENT OF FINANCIAL POSITION

UNIVERSITIES - AFFILIATED COMPONENT UNITS

JUNE 30, 2009

(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
ASSETS					
Cash and cash equivalent investments	$ 5,919	$ 51,237	$ 291	$ 19,769	$ 77,216
Receivables:					
Pledges receivable	106,447	21,651	-	47,656	175,754
Other receivables	2,173	-	656	14,653	17,482
Total receivables	108,620	21,651	656	62,309	193,236
Investments:					
Investments in securities	378,525	306,968	48,247	106,087	839,827
Investments held in trust for Universities	53,065	28,288	-	4,069	85,422
Other investments	39,697	8,218	687	2,758	51,360
Total investments	471,287	343,474	48,934	112,914	976,609
Net direct financing leases	27,605	-	47,358	48,560	123,523
Property and equipment, net of accumulated depreciation	20,149	3,616	223,591	154,339	401,695
Licenses	-	-	-	5,559	5,559
Other assets	15,824	3,023	6,076	17,074	41,997
Total Assets	649,404	423,001	326,906	420,524	1,819,835
LIABILITIES					
Liability under Universities' endowment trust agreements	53,065	15,492	-	4,987	73,544
Bonds payable	81,352	-	351,376	228,746	661,474
Unearned revenue	4,178	-	24	28,906	33,108
Other liabilities	27,580	7,006	15,136	18,341	68,063
Total Liabilities	166,175	22,498	366,536	280,980	836,189
NET ASSETS					
Permanently restricted	343,943	281,265	-	40,499	665,707
Temporarily restricted	162,118	107,445	-	63,266	332,829
Unrestricted (deficit)	(22,832)	11,793	(39,630)	35,779	(14,890)
Total Net Assets	$ 483,229	$ 400,503	$ (39,630)	$ 139,544	$ 983,646

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
REVENUES					
Contributions	$ 22,594	$ 60,715	$ -	$ 20,264	$ 103,573
Rental revenue	914	-	16,695	28,680	46,289
Sales and services	18,464	-	8,507	8,213	35,184
Net investment income	(75,587)	(73,652)	353	(12,976)	(161,862)
Capital lease revenue	-	-	-	113	113
Licensing revenue	-	-	-	2,309	2,309
Other revenues	5,040	9,292	4,026	7,753	26,111
Total Revenues	(28,575)	(3,645)	29,581	54,356	51,717
EXPENSES					
Program services:					
Payments to Universities	42,389	35,806	2,547	11,632	92,374
Leasing related expenses	-	-	-	8,883	8,883
Payments on behalf of Universities	-	12,130	-	6,348	18,478
Other program services	5,493	-	-	5,385	10,878
Personal services, operations, and administrative expenses	23,758	3,551	10,216	20,524	58,049
Fundraising expenses	-	5,401	-	3,422	8,823
Interest	2,236	-	13,629	9,199	25,064
Assets expensed under capital lease agreement	-	-	-	-	-
Depreciation and amortization	2,369	-	10,454	5,266	18,089
Other expenses	7,025	-	1,075	766	8,866
Total Expenses	83,270	56,888	37,921	71,425	249,504
Decrease in net assets, before extraordinary items	(111,845)	(60,533)	(8,340)	(17,069)	(197,787)
Extraordinary Items:					
Gain on lease revaluation due to bond refunding	-	-	1,394	-	1,394
Loss on early debt extinguishment	-	-	(3,442)	-	(3,442)
Decrease in net assets, after extraordinary items	(111,845)	(60,533)	(10,388)	(17,069)	(199,835)
Net Assets - Beginning	595,074	461,036	(29,242)	156,618	1,183,486
Cumulative effect of accounting change	-	-	-	(5)	(5)
Net Assets - Ending	$ 483,229	$ 400,503	$ (39,630)	$ 139,544	$ 983,646

The Notes to the Financial Statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Arizona (the State) conform to U.S. Generally Accepted Accounting Principles (GAAP) applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

The State is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units. Component Units' footnote disclosures are presented in Note 16 – *Discretely Presented Component Unit Disclosures.*

Component Units

Component units are legally separate entities for which the State is considered to be financially accountable, or organizations that raise and hold economic resources for the direct benefit of the State. Blended component units, although legally separate entities, are in substance, part of a government's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units of the State, except for component units affiliated with the State's Universities, are reported in separate columns in the government-wide financial statements to emphasize they are legally separate from the State. Because the component units affiliated with the Universities follow Financial Accounting Standards Board (FASB) statements, these financial statements have been reported on separate pages following the respective counterpart financial statements of the State. For financial reporting purposes, only the statement of financial position and the statement of activities for component units affiliated with the Universities are included in the State's financial statements, as required by the GASB.

GASB Statement No. 14, *The Financial Reporting Entity* has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

In addition, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB 39) requires that legally separate, tax-exempt entities that meet *all* of the following criteria should be discretely presented as component units: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The State reports the following blended component units:

The Arizona State Retirement System (ASRS) is a cost-sharing, multiple-employer, defined benefit pension plan that benefits employees of the State, its political subdivisions, and school districts. The ASRS is administered in accordance with provisions of Arizona Revised Statutes (ARS) Title 38, Chapter 5, Articles 1, 2, and 2.1. The ASRS is governed by a nine-member board that is appointed by the Governor and approved by the Senate to serve three-year terms.

The Public Safety Personnel Retirement System (PSPRS) is an agent, multi-employer public employee retirement system that benefits fire fighters and police officers employed by the State and its political subdivisions. The PSPRS is jointly administered by the Fund Manager and 224 local boards according to the provisions of ARS Title 38, Chapter 5, Article 4. The Fund Manager is a five-member board appointed by the Governor and approved by the Senate to serve a fixed three-year term. Each eligible group participating in the system has a five-member local board. In general, all members serve a fixed four-year term.

The Elected Officials' Retirement Plan (EORP) is a cost-sharing, multi-employer public employee retirement plan that benefits all State and county elected officials and judges and certain elected city officials. The Fund Manager of the PSPRS administers the EORP plan according to the provisions of ARS Title 38, Chapter 5, Article 3.

The Corrections Officer Retirement Plan (CORP) is an agent, multi-employer public employee retirement plan that benefits county detention officers, certain employees of the State's Department of Corrections and Department of Juvenile Corrections, and judiciary, probation, surveillance and juvenile detention officers. The Fund Manager of the PSPRS administers the CORP plan according to the provisions of ARS Title 38, Chapter 5, Article 6.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained from the applicable plan's office or website at:

Arizona State Retirement System
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2000 or (800) 621-3778
www.azasrs.gov

Public Safety Personnel Retirement System, Elected Officials' Retirement Plan or the Corrections Officer Retirement Plan
3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016
(602) 255-5575
www.psprs.com

The State reports the following discretely presented component units:

Governmental Fund:

Greater Arizona Development Authority (GADA) – The purpose of the GADA is to provide cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA was created by an Act of the Arizona Legislature in 1997 and is a body, corporate and politic, of the State. The GADA is governed by a nine member Board of Directors consisting of four State of Arizona agency heads and five members, one of which shall be a representative of a tribal nation in Arizona, appointed by the Governor of the State. Members appointed by the Governor serve staggered five year terms. The GADA fund was originally capitalized with General Fund appropriations and requests for additional capitalization of the GADA must be approved by the Arizona Legislature. Complete financial statements may be obtained from the GADA's administrative office at 1700 West Washington Street, Executive Tower, Suite 600, Phoenix AZ 85007, (602) 771-1100.

Proprietary Funds:

University Medical Center (UMC) – The UMC is the primary teaching hospital for the College of Medicine, the College of Nursing, the College of Pharmacy, the College of Public Health, and the School of Health Related Professions of the University of Arizona (U of A). The UMC was created in 1984 when the State Legislature passed a bill that allowed the Arizona Board of Regents (ABOR) to convey the UMC to a private, not-for-profit, tax-exempt corporation. Although an autonomous entity was created, the teaching missions and research alliances with the U of A and the State remained. The ABOR confirms all members of the UMC's Board of Directors, and must approve all amendments to the UMC's articles of incorporation and bylaws. Complete financial statements may be obtained from the UMC's administrative offices at 655 East River Road, Tucson, Arizona 85704, (520) 694-2700.

Arizona Power Authority (APA) – The APA purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws. The APA is governed by a commission of five members appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among their membership for a term of two years. All revenue bonds issued by the APA must be approved by the State Certification Board. Complete financial statements may be obtained from the APA's administrative offices at 1810 West Adams Street, Phoenix, Arizona 85007, (602) 368-4265.

Water Infrastructure Finance Authority (WIFA) – The WIFA is authorized to administer the Clean Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act, which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has also entered into an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is governed by a twelve-member board of directors.

The ten Governor appointed directors serve staggered terms of five years and serve at the pleasure of the Governor. Complete financial statements may be obtained from the WIFA's administrative offices at 1100 West Washington Street, Suite 290, Phoenix, Arizona 85007, (602) 364-1324.

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate boards of directors that meet the criteria established in GASB 39, with the exception of the Collegiate Golf Foundation, University Public Schools, Inc., and Campus Research Corporation (CRC). The Collegiate Golf Foundation and University Public Schools, Inc. are included because each is a legally separate organization that the State believes would be misleading to exclude due to its financial relationship or close affiliation to the State. The CRC is included because the U of A approves the budget, thus fiscal dependency exists.

The following discretely presented component units affiliated with the Universities are reported as *major* component units of the State:

Arizona State University Foundation (ASU Foundation) – The ASU Foundation's resources are disbursed at the discretion of the Foundation's independent board of directors, in accordance with donor directions and Foundation policy.

Arizona Capital Facilities Finance Corporation (ACFFC) – The ACFFC provides facilities for either use by students of ASU or ASU itself.

University of Arizona Foundation (U of A Foundation) – The U of A Foundation supports the U of A through various fund-raising activities and contributes funds to the U of A in support of various programs.

The following discretely presented component units affiliated with the Universities are reported as *non-major* component units of the State:

Arizona State University Alumni Association, Sun Angel Foundation, and Sun Angel Endowment – These three foundations receive funds primarily through donations and dues, and contribute funds to ASU for support of various programs.

Arizona State University Research Park, Inc. (ASU Research Park) – ASU Research Park manages a research park to promote and support research activities in coordination with ASU.

Mesa Student Housing, LLC and Downtown Phoenix Student Housing, LLC – These foundations provide facilities for use by students of ASU.

Collegiate Golf Foundation – This foundation operates an ASU-owned golf course.

University Public Schools, Inc. (UPSI) – The UPSI operates a public school designed to be on the forefront of education innovation and improvement, with the goal of developing educational models that can be scaled across the State and nation to improve the academic achievement of children.

University of Arizona Alumni Association (U of A Alumni Association) – The U of A Alumni Association was established to serve the U of A and its graduates, former students, and friends by attracting, organizing, and encouraging them to advance the U of A's missions - teaching, research, and public service.

University of Arizona Law College Association (Law Association) – The Law Association was established to provide support and financial assistance to the College of Law at the U of A. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships.

University of Arizona Campus Research Corporation (CRC) – The CRC was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Park) and related properties. The CRC currently leases from the U of A the remaining 67.00% of building space of the Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

Northern Arizona University Foundation, Inc. (NAU Foundation) – The NAU Foundation receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of NAU for advancement of its mission.

Northern Arizona Capital Facilities Finance Corporation (NACFFC) – The NACFFC was established for the purpose of acquiring, developing, constructing, maintaining, and operating student housing and other capital facilities and equipment for the use and benefit of NAU's students.

Complete financial statements for each of the aforementioned component units, except for the U of A Foundation, may be obtained at the following addresses:

ASU Foundation, ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, ASU Research Park, Collegiate Golf Foundation, ACFFC, Mesa Student Housing, LLC, Downtown Phoenix Student Housing, LLC, and the UPSI – Arizona State University, Financial Services, P.O. Box 875812, Tempe, Arizona 85287-5812 or (480) 965-3601

The U of A Alumni Association – Alumni Association, University of Arizona, P.O. Box 210109, Tucson, Arizona 85721-0109

The Law Association – Law College Association, University of Arizona, P.O. Box 210176, Tucson, Arizona 85721-0176

CRC - University of Arizona Science and Technology Park, 9030 South Rita Road, Suite 302, Tucson, Arizona 85747

NAU Foundation and NACFFC – Northern Arizona University, Comptroller's Office, P.O. Box 4069, Flagstaff, Arizona 86011

The financial statements of the U of A Foundation are not publicly available. For information regarding the U of A Foundation's financial statements, contact the U of A Comptroller at the following address: University of Arizona, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310.

Related Organizations

Related organizations are legally separate entities for which the State is not considered to be financially accountable, and that do not meet the criteria established by GASB 39. The State's accountability for these organizations does not extend beyond making the appointments, nor are the economic resources accessible to the State. As a result, financial activity for the organizations described below is not included in the State's financial statements.

Arizona Health Facilities Authority (the Authority) – ARS §36-482 established the Authority to issue tax-exempt bonds and loans for the purpose of reducing health care costs and improving health care for Arizona residents by providing less expensive financing for health care institutions. Proceeds from bond issues are loaned to various qualifying nonprofit health care institutions. The health care institutions reimburse the Authority for expenses for issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve staggered terms of seven years, and can be removed for cause or at will by the Governor with the consent of the Senate. The State cannot abrogate the rights of the Authority until all bonds, together with the interest thereon, are fully paid and discharged and all agreements are fully performed.

Arizona International Development Authority (the Authority) – ARS §41-1533.01 established the Authority to facilitate the development of international trade or commerce between Arizona and other countries. The Authority is governed by a seven-member board of directors appointed by the Governor and approved by the Senate for five-year terms, and can be removed only for cause.

Arizona Sports and Tourism Authority (the Authority) – ARS §5-802 established the Authority to construct, finance, furnish, maintain, improve, operate, market, and promote the use of a multipurpose facility and do all things necessary or convenient to accomplish those purposes. The Authority may issue revenue bonds in such principal amounts to accomplish the above stated purposes. The Authority is governed by a nine-member board of directors of which five are appointed by the Governor and approved by the Senate and two members each by the President of the Senate and the Speaker of the House. The directors serve terms of five years, and may be re-appointed for one full subsequent term, and can be removed only for cause.

Arizona Housing Finance Authority (the Authority) – ARS §41-3902 established the Authority to issue bonds for residential dwelling units and multifamily residential rental projects in rural areas. The Authority may also establish mortgage credit certificate programs to finance residential dwelling units in rural areas. The Authority is required to notify and obtain written consent from the governing bodies of any city, town, county, tribal government, or existing corporation for any multifamily residential rental projects planned for their jurisdiction. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve terms of seven years, and can be removed only for cause.

State Compensation Fund (the Fund) – ARS §23-981 established the Fund to provide insurance to employers for workers' compensation, occupational disease compensation, and medical, surgical, and hospital benefits. The Fund is governed by a board of directors that consists of five members appointed by the Governor for staggered terms of five years. Annually, the Governor appoints a chairman from among the board members.

Joint Ventures

As described in Note 10, the U of A participates in a joint venture. In accordance with U.S. GAAP, the financial activities of this joint venture are not included in the State's financial statements.

B. BASIS OF PRESENTATION

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the State as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the State and between the State and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The **Statement of Net Assets** presents the State's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

> **Invested in capital assets, net of related debt** consist of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
>
> **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or voter initiative.
>
> **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

The **Statement of Activities** presents a comparison between direct expenses and program revenues for each function of the State's governmental activities, and its different business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function.

The State does not allocate indirect expenses to programs or functions.

Program revenues include:

- charges to customers or applicants for goods, services, privileges provided, and fines or forfeitures
- operating grants and contributions
- capital grants and contributions, including special assessments

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Interfund balances have been eliminated from the government-wide financial statements to the extent that they occur within either the governmental or business-type activities. Balances between governmental and business-type activities are presented as internal balances and are eliminated in the total column. Revenues and expenses associated with reciprocal transactions within governmental or within business-type activities have not been eliminated.

Fund financial statements provide information about the State's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The State reports the following major governmental funds:

The General Fund – is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund – accounts for all financial transactions applicable to the general operations of the Arizona Department of Transportation (ADOT). The ADOT builds and maintains the State's highway system and the Grand Canyon Airport.

The Land Endowments Fund – holds lands granted to the State by the Federal government for the benefit of public schools and other public institutions. Principal is maintained intact and investment earnings and lease revenues are distributed to beneficiaries in accordance with State statute.

The State reports the following major enterprise funds:

The Universities – account for transactions of the State's three universities, which comprise the State's university system.

Unemployment Compensation – pays claims for unemployment to eligible recipients from employer contributions and reimbursements.

The Industrial Commission Special Fund – accounts for deposits not to exceed 1.50% of all premiums received by the State Compensation Fund and private insurance carriers during the preceding calendar year. These monies are used to provide additional awards as necessary to enable injured employees to accept the benefits of any law for promotion of vocational rehabilitation of persons disabled in industry. In addition, benefits may be paid for workers' compensation claims filed by employees of non-insured employers. The Industrial Commission (Commission) then pursues against the non-insured employer for reimbursement of all benefits paid, including assessed penalties.

The Lottery – accounts for the activities of the Arizona State Lottery.

Additionally, the State reports the following fund types:

Internal Service Funds – account for insurance coverage, employee benefits, automotive maintenance and operation, highway equipment rentals, and data processing and telecommunication services provided to State agencies on a cost-reimbursement basis. It is the policy of the State to classify immaterial proprietary fund activities in governmental funds. This policy helps to reduce the number of funds reported in the financial statements to the minimum amount needed. These funds allocate a fixed rate payroll processing charge among all agencies, allocate postage and mailing costs among all agencies, or arrange for the sale of the State's office equipment and motorized vehicles at public auctions.

Pension and Other Employee Benefit Trust Funds – account for the activities of the ASRS, the PSPRS, the EORP, and the CORP, for which the State acts as a trustee. These retirement and other post-employment benefit plans accumulate resources to pay pension, health insurance premium subsidies, and long-term disability benefits of State employees and employees of other governmental entities participating in the plans.

Investment Trust Funds – account for transactions by local governments and political subdivisions that elect to participate in the State Treasurer's investment pools. The Treasurer acts as trustee for the original deposits made into the investment pools.

Agency Funds – account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, and payment of the health insurance subsidy by the PSPRS, the EORP, and the CORP, where the State acts as an agent for distribution to other governments and organizations.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenues as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 31 days after year-end, except for State fiscal stabilization funds, which consider revenues to be available if collected within 90 days after year-end, and except for the Transportation and Aviation Planning, Highway Maintenance and Safety Major Fund, as well as certain non-major governmental funds administered by the ADOT, which consider revenues to be available if collected within 60 days after year-end. Those revenues susceptible to accrual are federal reimbursements, highway user revenue tax, and state sales tax. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the State funds certain programs through a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. The State's policy regarding whether to first apply restricted or unrestricted resources is made on a case-by-case basis.

The State's business-type activities and enterprise funds follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The State has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. DEPOSITS AND INVESTMENTS

1. Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts on the Statement of Net Assets "Cash", "Cash with U.S. Treasury", "Cash and pooled investments with State Treasurer", "Cash held by trustee" and "Collateral investment pool". For purposes of the Statement of Cash Flows, the State considers only those highly liquid debt instruments with an original maturity of ninety days or less to be cash equivalents.

- *Cash (not with State Treasurer)* – includes undeposited receipts, petty cash, bank accounts, non-negotiable certificates of deposit, and demand deposits with banking institutions other than the State Treasurer.

- *Cash with U.S. Treasury* – consists of unemployment compensation contributions from Arizona employers that are deposited in a trust fund maintained by the United States Treasury.

- *Cash and pooled investments with State Treasurer* – consists of a centralized management of most State cash resources maintained by the State Treasurer. From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the State Treasurer's pooled investments are described in Note 2.

- *Cash held by trustee* – consists of capital projects and bond debt service funds invested by the trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit, commercial paper, and money market funds.

- *Collateral investment pool* – consists of cash received as collateral on securities lending transactions and investments made with that cash. The State records the collateral received as an asset. A corresponding liability is also recorded for such securities lending transactions.

2. Investment Valuation

Investments maintained by the State Treasurer are reported at fair value using JP Morgan prices, as determined by independent, industry recognized data vendors who provide values that are either exchange based or matrix based. Equities are priced utilizing the primary exchange close price. In the absence of a closed price, the mid/bid price will be utilized. If no pricing source is available, the cost price or last available price from any source will be utilized. All bonds are priced using an evaluated price, the closing trade/bid price or the most recent mid/bid price, except securities with a remaining maturity of 90 days or less are priced at amortized cost (amortizing premium/accreting discount on a straight-line to maturity method). If no pricing source is available, the cost price or the last available price from any source will be utilized.

The ASRS' publicly traded investments are reported at fair value determined by the custodial agents. The agents' determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. The fair value of currency forward contracts is calculated by interpolating the spot rate and the forward rates based upon the number of days to maturity. Each future contract value is marked to market daily during the period that the contract is held. Private real estate, private equity, and opportunistic partnership investments are valued based on the partnership's March 2009 financial statements adjusted for cash flows through June 30, 2009. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, the ASRS, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. Security transactions and any resulting gains or losses are accounted for on a trade date basis. Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, real estate, private equity and opportunistic investments income and total investment expense. This includes investment management, custodial fees, real estate, private equity and opportunistic investment expenses and all other significant investment related costs.

For the PSPRS, the EORP, and the CORP, investments are reported at fair value. Short term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed income securities are valued using the last reported sales price or the estimated fair market value as determined by the fixed income broker/dealers. Investments that do not have an established market are reported at estimated fair value. Directed real estate and venture capital investments are reported at fair value using appraisals to estimate the fair market value. Appraisals will be performed every three years on a rolling schedule unless circumstances warrant otherwise. Investment income is recognized as earned.

E. TAXES RECEIVABLE

Taxes receivable include amounts owed by taxpayers for prior periods including assessments for underpayments, penalties, and interest. In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting. The remainder is recorded as deferred revenues.

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, and payments with final returns and assessments that relate to income earned through June 30, 2009. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2009, but not collected until the following month.

F. INVENTORIES

Inventories consist of expendable supplies held for consumption in all funds and merchandise intended for sale to customers in the proprietary funds. Inventories are stated at cost using the first-in, first-out method, weighted average, or lower of cost or market. In the governmental funds, inventories are accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

G. PROPERTY TAX CALENDAR

Real property taxes are levied on or before the third Monday in August and become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. A lien attaches on the first day of January preceding assessment and levy.

H. CAPITAL ASSETS

Capital assets are stated at cost at the date of acquisition or, if donated, at the estimated fair market value at the date received. Interest incurred during the construction of capital assets is only capitalized in the proprietary funds.

Most capital assets are depreciated over their useful life. However, the State utilizes an alternative accounting treatment for most infrastructure assets in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information (RSI) portion of this report. The State has adopted a general policy for capitalization thresholds, depreciation, and estimated useful lives of capital assets. In addition, the State has approved alternative policies for some State agencies.

Depreciable capital assets are depreciated on a straight-line basis. Capitalization thresholds (the dollar values at which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets being depreciated in the government-wide financial statements and the proprietary funds are as follows:

	General State Policy		Other Authorized Agency Policies	
Asset Category	Capitalization Threshold	Estimated Useful Life (years)	Capitalization Threshold	Estimated Useful Life (years)
Land	All capitalized	Not depreciated	All capitalized	Not depreciated
Buildings	All capitalized	25-40	$0-$100,000	10-50
Improvements other than buildings	$5,000	15	$5,000-$100,000	20-50
Equipment	$5,000	3-15	$5,000	3-25
Infrastructure	All capitalized	Not depreciated	$0-$100,000	20-100

The State is trustee for approximately 9.3 million acres of land acquired through U.S. Government land grants in the early 1900's. The State acquired a substantial portion of this land at no cost and its fair market value at acquisition has not been reliably estimated. Accordingly, this land is not reported in the accompanying financial statements.

The State has interest in and maintains significant special collections, works of art, and historical treasures. Except for Arizona State University (ASU), all special collections, works of art, and historical treasures which are held for financial gain are capitalized at fair market value at the date of acquisition or donation. Those special collections, works of art, and historical treasures which are held for educational, research, or public exhibition purposes are not capitalized, as they are not subject to disposal for financial gain or encumbrance. Such items are inventoried for property control purposes. ASU capitalizes all works of art and historical treasures with a unit cost of $5,000 or more.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 4 and 7, respectively.

I. INVESTMENT EARNINGS

Investment earnings are composed of interest, dividends, and net changes in fair value of applicable investments.

J. SCHOLARSHIP ALLOWANCES

Student tuition and fee revenues, and certain other revenues earned by the three State Universities are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Fund Net Assets. A scholarship discount and allowance is the difference between the stated charge for goods and services provided and the amount that is paid by the student or third party making payment on behalf of the student. Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the Universities are considered to be scholarship allowances. These allowances are netted against applicable revenues in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

K. DEFERRED REVENUE

Deferred revenue consists of payments to the State for goods and services not yet rendered, or taxes, grants, and other non-exchange transactions for which related resources are not available to pay current liabilities. In the government-wide and proprietary fund financial statements, revenue is deferred when cash, receivables, or other assets are received prior to their being earned. In the governmental fund financial statements, revenue is deferred when that revenue is unearned or unavailable.

L. COMPENSATED ABSENCES

In the government-wide and proprietary fund financial statements, the State accrues liabilities for compensated absences as required by the GASB. In the governmental fund financial statements, liabilities for compensated absences are not accrued, because they are not considered due and payable.

In general, State employees accrue vested annual leave at a variable rate based on years of service. Except for uncovered State employees and University employees, an employee generally forfeits accumulated annual leave in excess of 240 hours as of the last day of the last pay period for a calendar year, unless the Director of the Department of Administration authorizes an exception. Uncovered State employees shall forfeit accumulated annual leave in excess of 320 hours as of the end of each calendar year, unless an exception is authorized. University employees may accumulate up to 264 hours of vacation, and any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Except for University employees, an employee who separates from State service is paid for all unused and unforfeited annual leave at the employee’s rate of pay at the time of separation. University employees, upon termination of employment, are paid all unused vacation benefits not exceeding 176 hours (annual accrual amount), depending on years of service and full-time equivalent employment status.

Some employees accumulate compensatory leave for time worked over 40 hours per week. An employee may accumulate up to 240 hours of compensatory leave (480 if working in a public safety activity or an emergency response activity). An employee who separates from State service is paid for all unused compensatory leave at either the employee’s average base salary during the last three years of employment or final base salary, whichever is higher.

For sick leave policy, see Note 11.C.

M. LONG-TERM OBLIGATIONS

In the government-wide and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Amounts due within one year are reported as current liabilities, and amounts due thereafter are reported as non-current liabilities. Premiums and discounts on revenue bonds and COPs are deferred and amortized over the life of the debt instrument using the straight-line method. Bonds and COPs are reported net of the applicable premium or discount. Bond issuance costs and deferred gains or losses on debt refundings are charged to expense in the period incurred unless those costs are deemed to be material to the State’s financial statements by management, in which case, they are deferred and amortized using either the straight-line method or the effective interest method.

In the fund financial statements, governmental fund types recognize proceeds from revenue bonds, COPs, and premiums and discounts on revenue bonds and COPs as other financing sources and uses in the current period. Long-term liabilities are more fully described in Note 7.

N. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollutions remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. When an obligating event occurs, the State is required to accrue and report a pollution remediation obligation (PRO) for those components of the PRO which are reasonably estimable. Accordingly, the State has recorded a new PRO liability for soil and groundwater contaminations and releases of petroleum based products from underground storage tanks on non-State-owned property regulated by the Arizona Department of Environmental Quality, using the expected cash flow technique. PRO liabilities include all outlays at current value expected to be expended to remediate polluted sites. Additionally, the provisions of GASB 49 are required to be applied retroactively. Therefore, net assets as of June 30, 2008 would have been restated, however, the State's adoption of GASB 49 was not material to the financial statements for the governmental activities. The requirements of this Statement are effective for periods beginning after December 15, 2007.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this Statement are effective for periods beginning after June 15, 2008. The State has implemented the requirements of this standard, but they had no material effect on the financial statements.

NOTE 2. DEPOSITS AND INVESTMENTS

A. DEPOSITS AND INVESTMENT POLICIES

The State's deposits and investments are primarily under the control of the State Treasurer, the Retirement Systems, the Universities, and the Commission. These entities maintain the majority of the deposits and investments of the primary government. The investment policies of these organizations are defined according to State statutes or a governing board or both and are described below.

ARS §35-312, §35-313, and §35-314 authorize the State Treasurer to invest operating, trust, and permanent endowment fund monies. Monies deposited with the State Treasurer by State agencies are invested by the State Treasurer in a pooled fund. Any interest earned is allocated monthly into each respective fund based on average daily cash balances. There is no income from investments associated with one fund that is assigned to another fund.

The State statutes and the State Treasurer's investment policies designed to administer these statutes restrict investments to obligations of the U.S. Government and its agencies, obligations or other evidence of indebtedness of the State and certain local government subdivisions, negotiable certificates of deposit, bonds, debentures and notes issued by U.S. corporations, commercial paper issued by entities organized and doing business in the United States, bankers acceptances, collateralized repurchase agreements, money market mutual funds, domestic equities, and other securities. The State Treasurer is not allowed to invest in foreign investments.

The State Treasurer maintains external investment pools [the Local Government Investment Pool (LGIP), Local Government Investment Pool-Government, Local Government Investment Pool – Long Term, and the Central Arizona Water Conservation District]. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed.

During the year, the State agencies' and an external investment pool's share of the Lehman Brothers bond value of $39.427 million was transferred to a new pool due to Lehman Brothers filing for Chapter 11 bankruptcy protection on September 15, 2008. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities. As of June 30, 2009, the fair value of the pool was $5.819 million. The likelihood that these participant monies will be recovered is not known.

State statutes authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. As such, investment management shall discharge the duties of their position with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a "prudent person" acting in enterprise of a like character and with like aims as that of the systems, subject to certain statutory limitations and restrictions.

The ASRS invests in short-term securities, obligations of the U.S. government or agencies of the U.S. government, corporate bonds, common and preferred stocks (domestic and foreign), mortgages, real estate, private equity and opportunistic investments. Per ARS §38-719, no more than 80.00% of the ASRS' total assets may be invested at any given time in corporate stocks or equity equivalents, based on cost value of the stocks or equity equivalents irrespective of capital appreciation. No more than 5.00% of the voting stock of any one corporation may be owned. No more than 30.00% of the ASRS' assets may be invested in foreign securities, and those investments shall be made only by investment managers with demonstrated expertise in such investments. No more than 10.00% of the ASRS' assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank. No more than 1.00% of the ASRS' assets may be invested in economic development projects authorized as eligible for such investment by the Arizona Department of Commerce. ARS §35-392 requires divestment from investments in companies that do business in Sudan, Iran, or other State Sponsors of Terrorism countries under certain conditions. Subject to the limitations noted above, the ASRS Board may authorize the ASRS Director to make investments that are designated by the ASRS Board and that do not exceed 50.00 % of the assets of the investment account measured at cost. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

Per ARS §38-848, §38-803A(4), and §38-883A(4), the PSPRS, the EORP, and the CORP, respectively, may not invest at any given time more than 80.00% of the combined assets of the system or other plans that the fund manager manages in corporate stocks, based on cost value of such stocks irrespective of capital appreciation. In addition, the PSPRS, the EORP, and the CORP investments shall be restricted to stocks and exchange traded funds that, except for bank and insurance stocks and membership interests in limited liability companies, are either: 1) listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended, 2) designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended, 3) listed or approved on issuance for listing on an exchange registered under the laws of this State or any other State, 4) listed or approved on issuance for listing on an exchange registered of a foreign country with which the U.S. is maintaining diplomatic relations at the time of purchase, except that no more than 20.00% of the combined assets of the system or other plans that the fund manager manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation, or 5) an exchanged traded fund that is recommended by the chief investment officer of the system, that is registered under the Investment Company Act of 1940, and that is both traded on a public exchange and based on a publicly recognized index. Not more than 5.00% of the voting stock of any one corporation shall be owned by the system and other plans that the fund manager administers, except that this limitation does not apply to membership interests in limited liability companies.

The ABOR governs the investment policies of the Universities. The Universities are generally limited to investing their pooled operating funds in collateralized certificates of deposit and repurchase agreements, U.S. Treasury securities, Federal agency securities, investment grade corporate bonds, or in the LGIP administered by the State Treasurer. Investment of capital project funds is also governed by the financing indenture agreements. For endowment investments, ABOR policy dictates that these funds are to be invested under the direction of an investment committee designated by the president of each university. The investment committee is responsible for advising on the definition, development, and implementation of investment objectives, policies, and restrictions. However, if donors restrict the investments, ABOR policy requires the University to invest those funds separately as directed by the donor, and the individual endowments bear all changes in value.

Per ARS §23-1065, the Commission's investment committee is responsible for prescribing investment policies and supervising the investment activities of the Commission. The Commission requires that their investment policy be responsive to the unpredictable nature of the incidence and severity of claims, the long periods over which losses may be paid, and the effect on both claims and losses of increases in treatment and rehabilitation costs. The investment committee may invest in any legal investment authorized under ARS §38-719.

B. CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. The State Treasurer, the Retirement Systems, and the Universities' deposits of State treasury monies with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. Surety collateral for the Universities and the Retirement Systems must be equal to at least 100.00% of the bank balance required to be collateralized (102.00% for the State Treasurer). Beyond this requirement, these organizations do not have a formal policy specifically addressing custodial credit risk on deposits, except for the State Treasurer. The State statutes require surety collateral for the State Treasurer to consist of U.S. Government obligations, State obligations, and obligations of counties and municipalities within the State. As of June 30, 2009, some State agencies have uncollateralized and uninsured deposits in the amount of $535 thousand and $4.815 million in deposits collateralized with securities held by the pledging financial institution's trust department or agent, but not in the State's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The State does not have a formal policy in regards to custodial credit risk for investments. As of June 30, 2009, the State had $61.323 million in securities that were uninsured, not registered in the State's name and held by a counterparty or a counterparty's trust department or agent but not in the State's name.

C. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State manages interest rate risk using the segmented time distribution, weighted average maturity, and effective duration methods.

The State Treasurer manages interest rate risk by incorporating ARS limitations into their investment policy and setting forth various thresholds or parameters in accordance with each investment pool's portfolio structure. The State Treasurer's policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored monthly by measuring the weighted average maturity and/or duration.

The ASU policy for operating funds limits the maximum maturity of any fixed rate issue to five years. The capital projects funds portfolio is not limited as to the overall maturity of its investments, with funds invested per the financing indentures to coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively.

The Commission approves and contracts with different investment managers of fixed income equities in order to manage the exposure to interest rate risk with each different fund manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool.

The following table presents the State Treasurer's, the ASU's, and the Commission's weighted average maturity in years by investment type (expressed in thousands):

Investment Type	Fair Value	Weighted Average Maturity (in years)
Bond mutual funds	$ 8,109	9.30
Commercial mortgage backed securities	6,901	28.61
Commercial paper	314,731	0.13
Corporate asset backed securities	67,360	0.33
Corporate collateralized mortgage obligations	17,095	16.61
Corporate notes & bonds	1,601,702	3.55
Government bonds	6,876	10.86
Government mortgage backed securities	43,810	17.18
Index linked government bonds	8,734	4.60
Money market mutual funds	157,734	0.15
Repurchase agreements	3,614,477	0.02
U.S. agency securities	1,775,273	1.30
U.S. agency securities-full faith	15,344	0.77
U.S. agency mortgage backed securities	785,608	17.34
U.S. Treasury securities	1,243,636	0.92
Other	8,619	4.28
Total Debt Securities	$ 9,676,009	2.52

The ASRS does not have a formal policy in regards to interest rate risk, but does manage interest rate risk using effective duration. Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions. The following table presents ASRS' effective duration by investment type (expressed in thousands):

Investment Type	Fair Value	Effective Duration (in years)
Asset backed securities	$ 139,591	1.00
Collateralized mortgage obligations (CMOs) of government agencies	16,969	1.70
Commercial mortgage backed	458,816	3.30
Corporate bonds	1,735,814	3.60
Government agencies	564,510	5.00
Government bonds	659,902	5.00
Government mortgage backed	1,663,108	2.80
Non-government backed CMOs	196,804	6.00
Total Debt Securities	$ 5,435,514	3.66

The PSPRS, the EORP, the CORP, and the NAU do not have a formal policy in regards to interest rate risk. The U of A's investment policy limits its operating funds to having a portfolio comprised of a significant proportion of authorized securities with maturities of one year or less, and requires that a maximum maturity of any fixed rate issue may not exceed five years and the final maturity of any floating rate issue may not exceed five years. The U of A capital projects and endowment funds have no such limitations.

The following table presents the interest rate risk for the PSPRS, the EORP, the CORP, the NAU, the U of A, and other State agencies utilizing the segmented time distribution (expressed in thousands):

		Investment Maturities (in years)					
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**11-15**	**16-20**	**More than 20**
Corporate notes & bonds	$ 1,363,034	$ 3,207	$ 89,867	$ 306,916	$ 69,929	$ 192,155	$ 700,960
Collateralized bond obligations (CBOs)	41,317	-	12,460	12,314	-	5,157	11,386
Collateralized debt obligations (CDOs)	1,119	-	-	1,118	-	1	-
Money market mutual funds	266,481	266,481	-	-	-	-	-
U.S. agency securities	433,274	32,050	144,724	73,346	13,789	121,793	47,572
U.S. Treasury securities	75,676	52,834	20,847	449	-	531	1,015
Other investments	21,361	5,292	1,955	8,534	193	1,063	4,324
Total Debt Securities	$ 2,202,262	$ 359,864	$ 269,853	$ 402,677	$ 83,911	$ 320,700	$ 765,257

The following table presents the State's investments at fair value that are considered to be highly sensitive to interest rate changes (expressed in thousands):

Interest Rate Terms	**Corporate Securities**	**U.S. Agency Securities**	**Total**
The London Interbank Offered Rate (LIBOR) plus/minus fixed basis point which resets from monthly to quarterly.	$ 810,057	$ 266,120	$ 1,076,177
Corporate asset backed securities with coupon tied to LIBOR plus/minus fixed basis point which resets monthly.	66,945	-	66,945
Mortgage backed securities - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminishes fair value.	-	830,678	830,678
Callable step-up notes - where on certain specified dates, the issuer can call the security. If the security is not called, the interest rate is increased by a specified amount. Prevailing interest rates may go up faster than this increase in the coupon interest rate.	-	65,377	65,377
Other securities with high sensitivity to rate changes.	-	125,437	125,437
Total	$ 877,002	$ 1,287,612	$ 2,164,614

D. CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment.

The State statutes and the State Treasurer's investment policy require that commercial paper must be rated by at least two nationally recognized statistical rating organizations (NRSROs) and that the ratings assigned by at least two of the NRSROs be of the two highest rating categories for short-term obligations. Corporate bonds, debentures, and notes must carry a minimum Baa or better rating from Moody's Investor Service (Moody's) or a BBB or better rating from Standard and Poor's Rating Service (S & P). For investments not rated by Moody's, Fitch rating information is used. There is no statute or investment policy on ratings or credit quality for obligations issued by the U.S. Government or its agencies or repurchase agreements. The underlying securities for repurchase agreements must be explicitly guaranteed by the U.S. Government.

The ASRS has not adopted a formal policy with respect to credit risk.

The PSPRS, the EORP, and the CORP's investment policy is specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. The fixed income portfolio must have a minimum weighted average quality rating of A3 by Moody's and A- by S & P. Fixed income investments must have a minimum quality rating of Baa3 by Moody's and BBB- by S & P at the time of purchase. Commercial paper must have a minimum quality rating of P-1 by Moody's and A1 by S & P at the time of purchase. The portion of the bond portfolio in investments rated Baa3 through Baa1 by Moody's and BBB- through BBB+ by S & P must be 20.00% or less of the fair value of the fixed income portfolio.

The Universities' policies mirror that of the ABOR, which requires that negotiable certificates of deposit, corporate bonds, debentures and notes, bankers acceptances, and State of Arizona bonds carry a minimum BBB or better rating by S & P or Baa or better rating by Moody's; and that commercial paper be rated by at least two NRSROs and must be of the two highest rating categories for short-term obligations of at least two of the NRSROs. Also, ASU's capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture.

The Commission's investment policy requires that purchases of fixed income securities will consist of U.S. Treasury or Federal agency obligations or those bonds rated not less than Ba by Moody's or BB by S & P, except for fixed income managers who have been hired to manage funds in a specialized manner (high yield).

The following table presents the State's investments which were rated by S & P and/or an equivalent national rating organization as of June 30, 2009. The ratings are presented using S & P's rating scale (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	CCC Thru D	A1	Not Rated
Asset backed securities	$ 211,158	$ 144,116	$ 6,358	$ 11,525	$ 4,508	$ 7,970	$ 27,167	$ 9,040	$ -	$ 474
Bond mutual funds	13,213	-	-	-	-	-	-	-	-	13,213
CBOs	41,317	-	-	23,273	12,460	-	-	-	-	5,584
CDOs	1,119	-	-	1,119	-	-	-	-	-	-
CMOs of government sponsored entities	16,969	16,291	-	-	-	-	678	-	-	-
Commercial mortgage backed securities	465,717	435,740	8,094	3,091	4,506	-	10,387	3,899	-	-
Commercial paper	19,988	-	-	-	-	-	-	-	19,988	-
Corporate notes & bonds	4,524,359	638,980	556,331	1,804,237	598,905	74,031	467,755	6,944	-	377,176
Government agencies	564,510	564,276	-	234	-	-	-	-	-	-
Government bonds	659,902	651,366	-	8,536	-	-	-	-	-	-
Government mortgage backed securities	1,698,250	1,698,250	-	-	-	-	-	-	-	-
Money market mutual funds	424,215	376,211	-	-	-	-	-	-	-	48,004
Non-government backed CMOs	213,899	69,550	27,455	8,324	3,822	4,872	47,673	51,980	-	223
U.S. agency mortgage backed securities	463,219	463,219	-	-	-	-	-	-	-	-
U.S. agency securities	1,942,791	1,261,265	-	5,076	-	-	-	-	676,337	113
Other investments	20,668	5,083	1,843	-	228	-	-	-	-	13,514
Total	$ 11,281,294	$ 6,324,347	$ 600,081	$ 1,865,415	$624,429	$ 86,873	$ 553,660	$71,863	$ 696,325	$458,301

E. CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', ASU's, the U of A's, and the Commission's investment policies state that no more than 5.00% of their investments may be invested in securities issued by any one institution, agency, or corporation, other than securities issued as direct obligations of or are fully guaranteed by the U.S. Government or mortgage backed securities and agency debentures issued by federal agencies. The PSPRS', the EORP's, and the CORP's investment policy states that no more than 5.00% of the combined assets of the system or other plans that the fund manager manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the U.S. government or corporate stock issued by a bank or insurance company. NAU has no formal policy in regards to concentration of credit risk. At June 30, 2009, more than 5.00% of the Governmental Activities' total investments were held in the following single issues (expressed in thousands):

Issuer Description	Fair Value	Percentage
Federal Home Loan Mortgage Corporation	$ 475,902	8.64%
Federal National Mortgage Association	455,590	8.27%

F. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit. The State does not have a formal policy regarding foreign currency risk. The ASRS is the primary State agency that has foreign currency risk. Per ARS §38-719, no more than 30.00% of the ASRS assets may be invested in foreign equity securities and those investments shall be made only by investment managers with demonstrated expertise in those investments. The ASRS has not adopted a formal policy that is more restrictive. The following table summarizes the State's foreign currency risk as of June 30, 2009 (expressed in thousands):

	Foreign Currency Risk by Investment Type at Fair Value				
Currency	**Short Term**	**Fixed Income**	**Equities**	**Other Investments**	**Total**
Australian Dollar	$ 45,211	$ -	$ 56,301	$ -	$ 101,512
British Pound Sterling	40,124	2,516	450,605	3,346	496,591
Canadian Dollar	14,504	-	23,299	-	37,803
Chinese Yen	100	-	-	-	100
Czech Koruna	226	-	3,776	-	4,002
Danish Krone	825	-	18,233	-	19,058
Euro Currency	(21,913)	35,178	843,481	43,364	900,110
Hong Kong Dollar	8,035	-	93,429	35	101,499
Indonesian Rupian	4	-	-	-	4
Japanese Yen	84,665	-	558,600	-	643,265
Malaysian Ringit	-	-	689	-	689
New Mexican Peso	-	-	2,467	-	2,467
New Taiwan Dollar	-	-	3,651	-	3,651
New Zealand Dollar	(31,206)	-	6,799	-	(24,407)
Norwegian Krone	(501)	-	11,807	-	11,306
South African Rand	-	-	11,599	-	11,599
Singapore Dollar	3,241	-	18,370	-	21,611
South Korean Won	-	-	14,012	-	14,012
Swedish Krona	25,349	-	25,032	-	50,381
Swiss Franc	102,103	-	206,323	-	308,426
Thailand Baht	-	-	1,014	-	1,014
Various mutual funds	-	3,632	44,724	4,420	52,776
Total	$ 270,767	$ 41,326	$ 2,394,211	$ 51,165	$ 2,757,469

G. UNEMPLOYMENT COMPENSATION

Pursuant to Section 904 of the Social Security Act (42 U.S.C. §1104), unemployment insurance contributions from Arizona employers are deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States. The cash on deposit in the trust fund account is pooled and invested. Interest earned from investments purchased with such pooled monies is deposited in the trust fund account. The Unemployment Compensation Fund, reported as a major enterprise fund, has been established for this purpose.

H. SECURITIES LENDING

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. A corresponding liability is also recorded for such securities lending transactions.

1. Industrial Commission

State statutes and the Commission's policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. The custodial bank, Northern Trust, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lender's exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 2009. Northern Trust's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned for collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102.00% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105.00% of the market value of securities loaned plus accrued interest. The market value at June 30, 2009 for loaned securities collateralized by cash and non-cash collateral was $43.631 million and $0, respectively. As part of the securities lending transactions, Northern Trust received cash and non-cash collateral valued at $44.736 million and $0, respectively at June 30, 2009. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Deposit and investment risk disclosures are only reported for collateral received on securities lent.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans is 52 days and cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 15 days as of June 30, 2009. Cash collateral may also be invested separately in term loans, in which case the investments match the loan term. Cash open loans can be terminated on demand by either the lender or the borrower and there were no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Statement of Net Assets. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2009, the Commission had $44.736 million outstanding as payable for securities lending. A cap restriction on the amount of securities that can be out on loan at any one time of $43.976 million was set by the Commission on September 29, 2008.

2. Arizona State Retirement System

The ASRS is permitted by ARS §38-715(D) (3), to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with counterparts to loan securities and have the same securities redelivered at a later date. All securities are eligible for loan (U.S. fixed income securities, U.S. equities, and international equities) with a higher percentage of U.S. Treasuries on loan than most other security types. It is the policy of the ASRS to receive as collateral at least 102.00% of the market value of the loaned securities and maintain collateral at no less than 100.00% for the duration of the loan. At year-end, the ASRS has no credit risk exposure to borrowers because the amount the ASRS owes the borrowers exceeds the amount the borrowers owe the ASRS. The ASRS records the collateral received as an asset and the same amount as an obligation for securities on loan. Cash collateral received may be reinvested. The maturities of the investments are closely matched to those of the security loans to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral received are classified as an asset on the Statement of Fiduciary Net Assets. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2009, the fair value of securities on loan was $3.5 billion. Cash of $3.4 billion received as collateral for securities loaned was reinvested and had a net asset value of $3.4 billion, as of June 30, 2009. The securities lending payable at June 30, 2009 was $3.4 billion. The ASRS does not have the ability to pledge or sell the collateral unless there is a borrower default. The ASRS is indemnified against gross negligence and borrower default by the lending agents.

3. Public Safety Personnel Retirement System, Elected Officials' Retirement Plan, and Corrections Officer Retirement Plan

The PSPRS, the EORP, and the CORP are permitted by ARS Title 38, Chapter 5, Articles 4, 3, and 6, respectively, to enter into securities lending transactions. The PSPRS, the EORP, and the CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, the EORP, and the CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, the EORP, and the CORP require collateral of at least 102.00% of the fair value of the loaned U.S. Government or corporate security. The PSPRS, the EORP, and the CORP have no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the retirement system or plan. Securities on loan are carried at fair value. As of June 30, 2009, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were $617.673 million, $38.842 million, and $144.776 million, respectively. At June 30, 2009, the fair value of the associated collateral for the PSPRS, the EORP, and the CORP were $632.722 million, $39.598 million, and $148.495 million, respectively. The PSPRS, the EORP, and the CORP are indemnified for broker default by the securities lending agent.

4. University of Arizona

During the fiscal year, the U of A elected not to participate in securities lending. This investment option remains available to the U of A.

I. DERIVATIVES

A derivative instrument is a financial instrument or other contract with all three of the following characteristics:

- It has one or more underlyings and one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and in some cases, whether or not a settlement is required.

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

- Its terms require or permit net settlement, it can readily be settled net by means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

The principal categories of derivatives employed and their uses during the year were as follows:

Category	**Purpose**
Currency forward contracts	Hedge currency risk of investments denominated in foreign currencies.
Equities index futures contracts	Reduce transaction costs; obtain market exposure; enhance returns.

Derivatives are reported at fair value. The fair value of currency forward contracts is a calculated value, determined by interpolating the spot rate and the forward rates based upon number of days to maturity. Futures contracts on equity indexes trade daily and are settled the following trade day. The value of each contract is marked-to-market daily during the period that the contract is held. This value is determined by calculating the daily difference, called "margin," between the closing Bloomberg market price of the applicable contract(s) on the valuation date as compared to the prior day. The ASRS exchanges the daily per-contract margin, by the number of contracts held, with the counterparty brokerage firm with whom the ASRS transacts its equity index futures trading. The counterparty pays the total margin to the ASRS if the daily market value of the contract(s) rises; the ASRS pays the counterparty if the daily market value declines.

Generally, derivatives are subject to both interest rate risk and credit risk. The derivatives utilized by the ASRS internal investment managers typically have no greater interest rate risk than their physical counterparts, and in many cases, are offset by exposure elsewhere in the portfolio. As of June 30, 2009, the ASRS had $814 thousand in temporary investments held as collateral for equity and fixed income derivatives which may have a positive or negative notional value.

The ASRS believes that it is unlikely that any of the derivatives used by its internal investment managers could have a material adverse effect on the financial conditions of the ASRS.

Refer to Note 7.A.3.c. for information on derivatives utilized by ASU.

J. STATE TREASURER'S SEPARATELY ISSUED FINANCIAL STATEMENTS

The State Treasurer issues a separately published Annual Financial Report. The report provides additional information relating to the State Treasurer's total investing activities, including the investment trust funds. A copy of the State Treasurer's Office Annual Financial Report can be obtained from their office location or website at:

Arizona State Treasurer's Office
1700 W. Washington St.
Phoenix, Arizona 85007
(602) 604-7800 or (877) 365-8310
www.aztreasury.gov

The Treasurer's financial statements are audited by the Office of the Auditor General.

NOTE 3. RECEIVABLES/DEFERRED REVENUE

A. TAXES RECEIVABLE

The following table summarizes taxes receivable at June 30, 2009 (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Unemployment Compensation Fund	Industrial Commission Special Fund	Non-Major Governmental Funds	Government-wide Total
Sales	$ 451,624	$ -	$ -	$ -	$ 44,875	$ 496,499
Income – individual and corporate	173,995	-	-	-	-	173,995
Motor vehicle and fuel	-	61,018	-	-	-	61,018
Luxury	7,115	-	-	-	19,721	26,836
Unemployment	-	-	65,737	-	-	65,737
Other	-	-	-	3,238	-	3,238
Gross taxes receivable	632,734	61,018	65,737	3,238	64,596	827,323
Allowance for uncollectible taxes	(198,089)	-	-	-	-	(198,089)
Net Taxes Receivable	$ 434,645	$ 61,018	$ 65,737	$ 3,238	$ 64,596	$ 629,234

B. DEFERRED REVENUE

At June 30, 2009, the components of deferred revenue, in terms of revenue unavailable and unearned, were as follows (expressed in thousands):

Current Deferred Revenue for Governmental Funds:	**Unavailable**	**Unearned**	**Total Deferred Revenue**
General Fund:			
Delinquent sales tax	$ 109,077	$ -	$ 109,077
Delinquent income tax	98,181	-	98,181
Tobacco settlement	59,140	-	59,140
Child support administrative reimbursements	4,219	-	4,219
Advance insurance premium taxes	-	44,762	44,762
Advance land lease payments	-	290	290
Public assistance overpayments	1,464	-	1,464
Vaccine & commodity food supplement	-	2,563	2,563
Advance county acute and long term care payments	-	16,231	16,231
Federal grants	263,234	-	263,234
Other	-	100	100
Transportation & Aviation Planning, Highway Maintenance & Safety Fund:			
Loans & notes receivable for asset purchases and construction	19,789	-	19,789
Land Endowments Fund:			
Land sales receivable	153,445	-	153,445
Land leases receivable	6,229	-	6,229
Advance land lease payments	-	17,152	17,152
Non-Major Funds:			
Public assistance overpayments	954	-	954
Advance payments for Hawaii/Arizona PMMIS Alliance	-	769	769
Other	-	38	38
Total Current Deferred Revenue for Governmental Funds	715,732	81,905	797,637
Noncurrent Deferred Revenue for Governmental Funds:			
General Fund:			
Advance land lease payments	-	5,134	5,134
Land Endowments Fund:			
Land sales receivable	603,598	-	603,598
Advance land lease payments	-	56,422	56,422
Total Noncurrent Deferred Revenue for Governmental Funds	603,598	61,556	665,154
Total Current and Noncurrent Deferred Revenue for Governmental Funds	$ 1,319,330	$ 143,461	$ 1,462,791

Current Deferred Revenue for Proprietary Funds:	**Unearned**
Universities:	
Unexpended cash advances received	$ 44,721
Auxiliary sales and services	6,089
IBM lease related to acquisition of research park	4,900
Student tuition and fees	59,373
Deposits	1,357
Other	2,166
Non-Major Funds:	
Policyholders' advance premiums	6,036
Magazine subscriptions	2,614
Other	520
Total Current Deferred Revenue for Proprietary Funds	$ 127,776
Noncurrent Deferred Revenue for Proprietary Funds:	
Universities:	
IBM lease related to acquisition of research park	$ 20,070
Total Noncurrent Deferred Revenue for Proprietary Funds	$ 20,070

NOTE 4. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2009 were as follows (expressed in thousands):

	Primary Government				
	Beginning Balance	**Additions**	**Retirements**	**Adjustments & Reclassifications**	**Ending Balance**
Governmental Activities:					
Non-depreciable capital assets:					
Land	$ 2,513,888	$ 92,260	$ (48,715)	$ (55,394)	$ 2,502,039
Construction in progress	2,719,856	1,120,660	(552,274)	(5,919)	3,282,323
Infrastructure	10,101,408	533,372	(2,991)	-	10,631,789
Total Non-depreciable Capital Assets	15,335,152	1,746,292	(603,980)	(61,313)	16,416,151
Depreciable capital assets:					
Buildings	1,709,900	28,243	1,119	8,545	1,747,807
Improvements other than buildings	136,246	795	(18)	5,225	142,248
Equipment	772,238	34,660	(52,574)	6,496	760,820
Infrastructure	7,118	2	-	8,201	15,321
Total Depreciable Capital Assets	2,625,502	63,700	(51,473)	28,467	2,666,196
Less accumulated depreciation for:					
Buildings	(546,719)	(46,259)	(1,350)	2,765	(591,563)
Improvements other than buildings	(71,312)	(3,947)	3	638	(74,618)
Equipment	(536,436)	(67,885)	50,917	3,702	(549,702)
Infrastructure	(4,450)	(336)	-	(2,121)	(6,907)
Total Accumulated Depreciation	(1,158,917)	(118,427)	49,570	4,984	(1,222,790)
Total Depreciable Capital Assets, Net	1,466,585	(54,727)	(1,903)	33,451	1,443,406
Total Governmental Activities Capital Assets, Net	$ 16,801,737	$ 1,691,565	$ (605,883)	$ (27,862)	$ 17,859,557

	Beginning Balance (As restated)	**Additions**	**Retirements**	**Adjustments & Reclassifications**	**Ending Balance**
Business-type Activities:					
Non-depreciable capital assets:					
Land	$ 166,613	$ 17,152	$ (2,365)	$ -	$ 181,400
Construction in progress	125,230	141,491	(11,359)	(124,308)	131,054
Collections	15,853	2,064	(35)	-	17,882
Total Non-depreciable Capital Assets	307,696	160,707	(13,759)	(124,308)	330,336
Depreciable capital assets:					
Buildings	3,701,943	72,288	(4,217)	107,622	3,877,636
Improvements other than buildings	4,811	-	-	-	4,811
Equipment	1,282,525	96,553	(33,214)	(249)	1,345,615
Infrastructure	346,268	4,259	(53)	16,934	367,408
Total Depreciable Capital Assets	5,335,547	173,100	(37,484)	124,307	5,595,470
Less accumulated depreciation for:					
Buildings	(1,330,804)	(116,342)	1,764	(69)	(1,445,451)
Improvements other than buildings	(2,501)	(188)	-	1	(2,688)
Equipment	(882,621)	(89,264)	28,193	68	(943,624)
Infrastructure	(117,449)	(11,992)	11	-	(129,430)
Total Accumulated Depreciation	(2,333,375)	(217,786)	29,968	-	(2,521,193)
Total Depreciable Capital Assets, Net	3,002,172	(44,686)	(7,516)	124,307	3,074,277
Total Business-type Activities Capital Assets, Net	$ 3,309,868	$ 116,021	$ (21,275)	$ (1)	$ 3,404,613

The capital assets beginning balance for business-type activities has been restated by $11.989 million to correct ASU's building assets related to a capital lease with one of ASU's affiliated component units, which was offset by the fund held for others liability, therefore the restatement did not impact the business-type activities.

Depreciation expense was charged to governmental functions as follows (expressed in thousands):

General government	$ 22,338
Health and welfare	16,192
Inspection and regulation	1,769
Education	844
Protection and safety	51,652
Transportation	17,460
Natural resources	8,172
Total Governmental Activities	$ 118,427

Depreciation expense was charged to business-type activities as follows (expressed in thousands):

Lottery	$ 356
Industrial Commission Special Fund	1,305
Universities	214,156
Other	1,969
Total Business-type Activities	$ 217,786

NOTE 5. PENSION BENEFITS

The State participates in the ASRS, the PSPRS, the EORP, and the CORP. Benefits are established by State statutes and provide retirement, death, and survivor benefits to State employees, public school employees and employees of counties, municipalities, and other State political subdivisions.

A. PARTICIPATING EMPLOYERS

The number of participating government employers as of June 30, 2009 is shown below:

Employer	ASRS	PSPRS	EORP	CORP
Cities and towns	78	143	21	1
Counties and county agencies	15	21	15	14
State	1	1	1	1
Special districts	94	59	-	-
School districts	242	-	-	-
Charter schools	156	-	-	-
Community college districts	10	-	-	-
Dispatchers	-	-	-	8

B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS

For the ASRS, contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Pension benefit and refund payments are recognized when due and payable in accordance with the terms of the plan.

For the PSPRS, the EORP, and the CORP, member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Pension benefits are recognized when due and payable in accordance with the terms of the plan. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid.

C. FUNDING POLICY

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the ARS. These contribution requirements may be amended by the Arizona State Legislature.

Cost-sharing plans

For the year ended June 30, 2009, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 8.95% and 7.99% of the members' annual covered payroll, respectively. The State's contributions to the ASRS for the years ended June 30, 2009, 2008, and 2007 were $155.820 million, $162.121 million, and $142.382 million, respectively, for the primary government which were equal to the required contributions for these years.

In addition, active EORP members were required by statute to contribute 7.00% of the members' annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 26.00% of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 2009, 2008, and 2007 were $2.830 million, $2.230 million, and $1.789 million, respectively, which were equal to the required contributions for these years.

Agent plans

For the year ended June 30, 2009, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 13.02 - 48.33%. Active CORP members were required by statute to contribute 8.41% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 7.48 - 7.85%.

D. ANNUAL PENSION COST

The State’s annual pension costs, required contributions, and excess other post-employment benefit (OPEB) contributions applied to pensions (see Note 6.A. and B. for explanation) for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2009, is as follows (expressed in thousands):

		Pension Contributions Made	
	Annual Pension Costs	Required Contributions	Excess OPEB Contributions
PSPRS	$ 30,588	$ 30,588	$ 674
CORP	35,022	35,022	2,188

The State’s annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension for the current and preceding year follows for each of the agent, multiple-employer defined benefit pension plans. The year ended June 30, 2007, contains both pension and OPEB information. (expressed in thousands)

	Fiscal Year Ended	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension
PSPRS	6/30/09	$ 30,588	102%	$ 1,274
	6/30/08	25,879	102%	600
	6/30/07	19,993	100%	-
CORP	6/30/09	35,022	106%	4,791
	6/30/08	26,405	110%	2,603
	6/30/07	17,494	100%	-

E. FUNDED STATUS AND FUNDING PROGRESS

The State's funded status for each of the agent, multiple-employer defined benefit pension plans, as of the most recent actuarial valuation, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2009	$ 564,000	$ 857,854	$ (293,854)	65.7%	$ 99,558	(295.2)%
CORP	6/30/2009	806,941	910,317	(103,376)	88.6%	373,674	(27.7)%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

F. ACTUARIAL METHODS AND ASSUMPTIONS

The State's actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit pension plans for the most recent actuarial valuation as of 6/30/09 and actuarial valuation as of 6/30/07 that was used to determine the fiscal year 2009 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
Actuarial valuation date	6/30/07	6/30/07	6/30/09	6/30/09
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit	projected unit credit
Actuarial assumptions:				
Investment rate of return	8.50%	8.50%	8.50%	8.50%
Projected salary increases	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%
includes inflation at	5.00%	5.00%	5.50%	5.50%
Cost-of-living adjustments	None	None	None	None
Amortization method	level percent closed for unfunded actuarial accrued liability, open for excess	level percent closed for unfunded actuarial accrued liability, open for excess	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization	29 years for unfunded actuarial accrued liability, 20 years for excess	29 years for unfunded actuarial accrued liability, 20 years for excess	27 years for unfunded actuarial accrued liability, 20 years for excess	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	smoothed market value	smoothed market value	7-year smoothed market	7-year smoothed market

G. UNIVERSITIES' RETIREMENT PLANS

Faculty, academic professionals, service professionals, and administrative staff at the three universities (the ASU, the NAU, and the U of A) may select one of four retirement plans: the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Services Company (Fidelity), or the ASRS. The ASRS is a defined benefit plan and the other three plans are defined contribution plans. The three defined contribution plans are administered by independent insurance and annuity companies approved by the ABOR. In addition, the U of A employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions made by employees vest immediately and the Universities' contributions vest no later than after five years of full-time employment. Employees and Universities' contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company. Universities' contributions and associated investment earnings must be distributed to the employee in the form of an annuity paid over the employee's life.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 2009, plan members and the three Universities were each required by statute to contribute an amount equal to 7.00% of an employee's compensation, except for a 7.50% member contribution and an 8.46% University contribution for the ASRS defined contribution plan.

Contributions to these plans for the year ended June 30, 2009, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	$ 29,903	$ 29,903	$ 59,806
VALIC	2,917	2,917	5,834
Fidelity	13,464	13,464	26,928
ASRS	33	29	62

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS

A. PLAN DESCRIPTION

Cost-sharing plans

In addition to the pension benefits described, the ASRS provides health insurance premium supplemental benefits and disability benefits to retired members, disabled members, and eligible dependents through the Health Benefit Supplement Fund (HBS) and the Long Term Disability Fund (LTD), which are cost-sharing, multiple-employer defined benefit post-employment plans. Title 38, Chapter 5 of the ARS assigns the authority to establish and amend the benefit provisions of the HBS plan and the LTD plan to the Arizona State Legislature. The ASRS issues a publicly available financial report that includes the financial information and disclosure requirements for the HBS plan and the LTD plan. Information on how to obtain this report is included in Note 1.A.

The EORP, by statute, is a cost-sharing, multiple employer plan. However, because of its statutory structure, in accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, paragraphs 5 and 41, the EORP's health insurance premium subsidy benefit (OPEB) is reported for such purposes as an agent, multiple-employer plan. Information on how to obtain the EORP's publicly available financial report is included in Note 1.A. However, the EORP's OPEB benefit is relatively insignificant to the State's financial statements and, therefore, is not further described in these notes or the RSI that follows.

Agent plans

In addition to pension benefits described, the PSPRS and the CORP each offer a health insurance premium subsidy benefit to retired members and survivors, which are agent, multiple-employer defined benefit post-employment plans. Title 38, Chapter 5 of the ARS assigns the authority to establish and amend the health insurance subsidy benefit provisions to the Arizona State Legislature. The PSPRS and the CORP do not administer a separate healthcare plan as defined under IRC § 401(h) or an equivalent agreement. In addition, the PSPRS and the CORP are not statutorily authorized to maintain a separate account for the health insurance subsidy assets and benefits payments. Therefore, in accordance with GASB Statement No. 43, the health insurance subsidy benefit is reported as an agency fund. There are no accumulated assets or liabilities, only contributions and benefit distributions are presented in these funds. All assets of the PSPRS and the CORP are available to pay both pension benefits and the health insurance subsidy benefits. The PSPRS and the CORP each issue publicly available financial reports that include the financial information and disclosure requirements for the health insurance subsidy benefits. Information on how to obtain these reports is included in Note 1.A.

B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS

Cost-sharing plan

The ASRS recognition of contributions for the HBS plan and the LTD plan are the same as the pension benefit in Note 5.B. Benefit and refund payments are recognized when due and payable in accordance with the terms of the HBS plan and LTD plan.

Agent plans

The PSPRS and the CORP recognition of employer contributions and refunds for the health insurance subsidy benefit are the same as the pension benefit in Note 5.B. Contributions in excess of the health insurance subsidy payments are reported as excess pension contributions in the pension benefit plan. Health insurance subsidy benefits are recognized when due and payable in accordance with the terms of the plan.

C. FUNDING POLICY

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the ARS. These contribution requirements are established and may be amended by the Arizona State Legislature.

Cost-sharing plan

For the year ended June 30, 2009, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 0.50% of the members' annual covered payroll for LTD. In addition, the State also contributed 0.96% for the HBS. The State's contributions for LTD to the ASRS for the years ended June 30, 2009, 2008, and 2007 were $9.751 million, $10.070 million, and $9.429 million, respectively, for the primary government which were equal to the required contributions for these years. The State's contributions for the HBS to the ASRS for the years ended June 30, 2009, 2008, and 2007 were $18.722 million, $21.146 million, and $19.802 million, respectively, for the primary government which were equal to the required contributions for these years.

Agent plans

For the year ended June 30, 2009, the PSPRS participating State agencies were required to contribute at actuarially determined rates of 1.21 - 4.48% of covered payroll. The CORP participating State agencies were required to contribute at actuarially determined rates of 0.94 - 1.05% of covered payroll.

D. ANNUAL OPEB COST

The State’s annual OPEB costs, OPEB contributions made, and increase in OPEB obligation for each of the agent, multiple-employer defined benefit post-employment plans for the year ended June 30, 2009, is as follows (expressed in thousands):

	Annual OPEB Costs	OPEB Contributions Made	Increase in OPEB Obligation
PSPRS	$ 2,401	$ 1,727	$ 674
CORP	3,918	1,730	2,188

The State’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and preceding year follows for each of the agent, multiple-employer defined benefit post-employment plans. Information for the last year of the required trend information will be reported next year when it becomes available. (expressed in thousands)

	Fiscal Year Ended	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
PSPRS	6/30/09	$ 2,401	71.9%	$ 1,274
	6/30/08	2,350	74.5%	600
CORP	6/30/09	3,918	44.2%	4,791
	6/30/08	4,301	39.5%	2,603

E. FUNDED STATUS AND FUNDING PROGESS

The State's funded status for each of the agent, multiple-employer defined benefit post-employment plans, as of the year ended June 30, 2009, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as Percentage of Covered Payroll
PSPRS	6/30/2009	-	$ 26,141	$ (26,141)	0.0%	$ 99,558	(26.3)%
CORP	6/30/2009	-	43,951	(43,951)	0.0%	373,674	(11.8)%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

F. ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The State's actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit post-employment plans for the most recent actuarial valuation as of 6/30/09 and actuarial valuation as of 6/30/07 that was used to determine the fiscal year 2009 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
Actuarial valuation date	6/30/07	6/30/07	6/30/09	6/30/09
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit	projected unit credit
Actuarial assumptions:				
Investment rate of return	8.50%	8.50%	8.50%	8.50%
Projected salary increases	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%
includes inflation at	5.00%	5.00%	5.50%	5.50%
Cost-of-living adjustments	None	None	None	None
Amortization method	level percent closed for unfunded actuarial accrued liability, open for excess	level percent closed for unfunded actuarial accrued liability, open for excess	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization	29 years for unfunded actuarial accrued liability, 20 years for excess	29 years for unfunded actuarial accrued liability, 20 years for excess	27 years for unfunded actuarial accrued liability, 20 years for excess	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	not applicable	not applicable	not applicable	not applicable

NOTE 7. LONG-TERM OBLIGATIONS

A. REVENUE BONDS

Governmental Activities

1. Arizona Department of Transportation

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal, state, and local highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $1.6 billion. During the year, Highway Revenue Bonds totaling $181.050 million were issued to finance portions of the ADOT's Five Year Transportation Facilities Construction Program and pay the costs of issuing the bonds.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes. On September 21, 2006, House Bill 2206 became effective and eliminated the restriction that limited the principal amount of the Highway Revenue Bonds that could be outstanding at any time to 1.3 billion. Also during fiscal year 2007, the ADOT received legislative authority to begin issuing Highway Revenue Bonds with maturities of up to 30 years in length, replacing the 20 year maturity requirement that has been in place since 1980.

The ADOT has pledged future motor vehicle and related fuel fees and taxes to repay $1.7 billion in outstanding Highway Revenue Bonds issued since 1993. Proceeds from the bonds finance portions of the ADOT's Five Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2033. The total principal and interest remaining to be paid on the bonds is $2.7 billion. Principal and interest paid for the current year and total pledged revenues were $154.000 million and $509.200 million, respectively. The annual principal and interest payments on the bonds required 30.20% of the pledged revenues.

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the ADOT. The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $350.955 million. During the year, Transportation Excise Tax Revenue Bonds totaling $440.000 million were issued to pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and the costs of issuing the bonds.

On September 21, 2007, the ADOT adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds. On April 17, 2009, the ADOT adopted the Second Supplemental Resolution authorizing the issuance of the second series of bonds under the Master Resolution in an amount not to exceed $440.000 million. No debt service reserve is required for the outstanding bonds.

Transportation Excise Tax Revenue Bonds aggregating $404.805 million are subject to redemption prior to their maturity dates at the option of the ADOT in whole or in part, at any time, on or after July 1, 2017. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Transportation Excise Tax Revenue Bonds aggregating $372.325 million are not subject to redemption.

The ADOT has pledged future transportation excise taxes to repay $777.130 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is $1.1 billion. Principal and interest paid for the current year and total pledged revenues were $31.000 million and $219.200 million, respectively. The annual principal and interest payments on the bonds required 14.10% of the pledged revenues.

In prior fiscal years, the ADOT refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded.

The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2009 totaled $212.880 million.

2. School Facilities Board

In prior fiscal years, the SFB refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the SFB at June 30, 2009 totaled $535.310 million.

The SFB has pledged portions of its gross revenues towards payment of debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, State school trust revenue bonds, and State school trust revenue refunding bonds outstanding at June 30, 2009. These bonds finance the correction of existing deficiencies in school facilities in the State of Arizona. These pledged revenues include Education Transaction Privilege Taxes approved by voters as part of Proposition 301 and expendable State School Trust Revenues. Expendable State School Trust Revenues include State Trust Lands' land lease revenue, interest earnings on land sales financed over time, and a formula distribution from the State's Permanent Fund prescribed by the State's Constitution. Pledged revenues do not include sales of State Trust Lands, sales of natural products derived from State Trust Lands, or royalties from minerals extracted from State Trust Lands. These revenues are held in perpetuity for the benefit of various beneficiaries of the State Land Trust and are not available to pay debt service. Expendable State School Revenues in excess of $72.263 million are not available to pay debt service on the State school trust revenue bonds and State school trust revenue refunding bonds per the debt documents. During fiscal year 2009, total expendable trust revenues exceeded the maximum allowable amount to pay debt service by $56.165 million. This excess is not included in total pledged revenues. At June 30, 2009, pledged revenues totaled $631.163 million, of which 14.03% ($88.553 million) was required to cover current year debt service. Future pledged revenues required to pay all future debt service on these bonds through final maturity of July 1, 2021 is $948.188 million.

Business-Type Activities

3. Universities

a. University of Arizona

The U of A's bonded debt consists of various issues of system revenue bonds that are generally callable with interest payable semi-annually. Bond proceeds are used to pay for acquiring or constructing capital facilities and infrastructure. Bond proceeds are also used for refunding obligations from previously issued bonds.

On April 28, 2009, the U of A sold System Revenue Bonds Series 2009A (2009A Bonds) for $202.370 million dated May 14, 2009. The 2009A Bonds include $137.895 million of serial bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2012 to 2032. The 2009A Bonds also include two term bonds consisting of $24.965 million with an interest rate of 5.00% due June 1, 2035; and $39.510 million with an interest rate of 5.00% due June 1, 2039. The 2009A Bonds with maturity on or after June 1, 2020, are subject to optional redemption without premium. The 2009A Bonds with maturity on June 1, 2035 and June 1, 2039 (the Term Bonds) are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2009A Bonds sold at a premium of $8.341 million. The U of A realized net proceeds of $209.115 million after payment of $1.596 million for issuance costs and underwriter discounts. The net proceeds were used to finance the Sixth Street Residence Halls, the Residence Life Building Renewal Phase 3 and 4 Projects, and to pay capitalized interest until December 1, 2011 on bonds allocated to the Sixth Street Residence Halls Project.

In fiscal year 2003, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2000A. At June 30, 2009, the outstanding principal balance of the refunded bonds was $2.320 million, which will be paid by investments held in an irrevocable trust with a fair value of $2.378 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

In fiscal year 2005, the U of A refunded, in advance of maturity, the remaining principal balance of System Revenue Bonds Series 2000A. At June 30, 2009, the total outstanding principal balance of the refunded System Revenue Bonds Series 2000A was $14.210 million, which will be paid by investments held in an irrevocable trust with a total fair value of $14.365 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

The U of A has pledged portions of its gross revenues towards the payment of debt related to all system revenue and system revenue refunding bonds outstanding at June 30, 2009. The bonds generally provide financing for various capital projects of the U of A. These pledged revenues include student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues such as indirect cost recovery and certain investment income. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. At June 30, 2009, pledged revenues totaled $681.900 million, of which 5.60% ($38.200 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the system revenue and system revenue refunding bonds through final maturity of June 1, 2040 is $828.900 million.

b. Northern Arizona University

On August 14, 2008, the NAU sold System Revenue Bonds Series 2008 for $43.130 million dated August 14, 2008 for the purpose of constructing a residence life warehouse, expanding the distance learning facility, expanding recreational fields, replacing the turf in the Skydome athletic facility, and various infrastructure improvements. The 2008 Bonds include $22.310 million of serial bonds with interest rates ranging from 3.00% to 5.25% and maturity dates ranging from June 1, 2009 to June 1, 2028. The 2008 Bonds also include $20.820 million of term bonds, with interest rates ranging from 5.00% to 5.25% and maturing on June 1, 2033 and 2038, and are subject to annual sinking fund contributions. The bonds maturing on or after June 1, 2019, are subject to optional redemption without premium on June 1, 2018. The 2008 Bonds were sold with net original issue discount of $88 thousand. The NAU realized net proceeds of $43.042 million after payment of $319 thousand for issuance costs, underwriter discounts, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The Series 2008 have an average interest rate of 5.04%.

In prior years, the NAU defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in the sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2009, $41.130 million of such bonds outstanding are considered defeased.

The NAU has pledged portions of its gross revenues towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2009. The bonds generally provide financing for various capital projects of the NAU. These pledged revenues include student tuition and fees, certain auxiliary enterprise revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. At June 30, 2009, pledged revenues totaled $164.900 million, of which 9.30% ($15.400 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the system revenue bonds through final maturity of June 1, 2040 is $320.600 million.

c. Arizona State University

At June 30, 2009, the ASU held a combination of fixed and variable rate bonds. The ASU's fixed rate bonded debt consists of various issues of system revenue bonds that are generally callable at a prescribed date with interest payable semi-annually. Certain system revenue bonds of the ASU were defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all such bonds outstanding at June 30, 2009 was $46.900 million.

In November 2008, the ASU issued $104.100 million in system revenue bonds having an average maturity of 14 years and an average interest rate of 5.89%. The bonds were issued to fund construction of the Polytechnic Campus Academic Complex.

In April 2009, the ASU issued $36.250 million in system revenue bonds having an average maturity of 8 years and an average interest rate of 3.76%. The bonds were issued primarily to fund the new Weatherup Center, an indoor basketball practice facility, the Memorial Union fire renovation project, and several building renewal and deferred maintenance projects.

The ASU has outstanding two series of Variable Rate Demand System Revenue Refunding Bonds, Series 2008A and 2008B (2008A&B Bonds), totaling $103.700 million with final maturities of July 1, 2034. Both series continue to bear interest at a weekly rate not to exceed 12.00% per annum based upon prevailing market conditions, as determined by the respective remarketing agents. The bonds are subject to conversion, at the option of the Arizona Board of Regents (ABOR) on behalf of the ASU, to a different or alternate adjustable rate mode, or a fixed rate pursuant to the bond indenture. The interest rate in effect on June 30, 2009 was .20% for the Series 2008A and .16% for the Series 2008B bonds.

The variable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice to the remarketing agents. To provide credit and liquidity support for the bonds, the ASU entered into an Irrevocable Letter of Credit and Reimbursement Agreement (LOC) with Lloyds TSB Bank, PLC, upon execution of the refunding bonds. The LOC was extended on June 18, 2009 and expires on June 15, 2012. Assuming all of the $51.800 million Series 2008A and $51.800 million Series 2008B Bonds are not resold within 90 days, the ASU would be responsible to make quarterly installment principal payments of $5.200 million over a five-year period, plus interest to be calculated as established in the letter of credit. The ASU has agreed to pay TSB Bank, PLC, an annual commitment fee for the letter of credit of 1.55% per annum on the stated amount which consists of outstanding principal of the bonds, plus 51 days of interest, at an assumed rate of 12.00% per annum.

Effective January 1, 2007, the ASU entered into a swap agreement on $103.000 million, notional amount, relating to the 2008A&B Bonds. The $103.000 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The notional amount under the swap decreases as principal payments are made on the 2008A&B Bonds. The intention of the swap was to effectively change the variable rate interest on the 2008A&B Bonds to a synthetic fixed rate. The swap agreement expires on July 1, 2034. Under the terms of the swap agreement, the ASU pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The SIFMA rate at June 30, 2009 was .35%. At June 30, 2009, the synthetic fixed interest rate on the bonds was:

Interest Rate Swap	Terms	Rates (%)
Fixed payment to counterparty	Fixed	3.91
Variable payment from counterparty	SIFMA	(.35)
Net interest rate swap payments		3.56
Variable-rate bond coupon payments	Spread to SIFMA	.18
Synthetic fixed interest rate on bonds		3.74

As of June 30, 2009, the swap had a fair value of $(5.700) million, which represents the cost to the ASU to terminate the swap. The fair value was developed by an independent third party, with no vested interest in the transaction, using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2009, the ASU was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the ASU would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A+ by Fitch, A by Standard & Poor's, and A2 by Moody's Investor Services as of June 30, 2009. Based on current ratings, the counterparty was not required to provide collateral. In the event a rating downgrade occurs, the counterparty may be required to provide collateral if the ASU's overall exposure exceeds predetermined levels. Collateral may be held by the ASU or a third party custodian.

The swap exposes the ASU to basis risk should the weekly SIFMA rate paid by the counterparty fall below the weekly interest rate due on the bonds which is also a variable rate with a spread to SIFMA. This basis risk can be the result of a downgrade of the ASU's rating or the pricing of the ASU's bonds by the remarketing agent at rates higher than the SIFMA index.

The ASU continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the ASU effectively pays a fixed rate on the debt. If a default occurs regarding the swap agreement, the non-defaulting party may designate a date to terminate the agreement. The ASU will revert to a variable rate if the counterparty defaults or if the swap is terminated. A termination of the swap agreement may also result in the ASU making or receiving a termination payment.

Securities and cash restricted for bond debt service held by the trustee at June 30, 2009 totaled $36.900 million.

The ASU has pledged portions of its gross revenues towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2009. The related revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations, and infrastructure improvements. These pledged revenues include student tuition and fees, certain auxiliary enterprise revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. For the year ended June 30, 2009, annual pledged revenues totaled $702.800 million, of which 6.40% ($44.800 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for system revenue bonds through final maturity of July 1, 2036 is $827.800 million. In addition, the ASU has pledged the same revenues on a subordinate basis to secure the Series 2006 Arizona State University Research Park, Inc. Development Refunding Bonds. Research Park bonds outstanding at June 30, 2009 were $10.900 million with annual debt service requirements of approximately $1.200 million through July 1, 2021.

The ASU presently plans to issue up to $230.000 million in system revenue bonds in fiscal year 2010.

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2009 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2009
Governmental Activities:				
Department of Transportation	1994-2009	2010-2033	2.00-6.00%	$2,517,895
School Facilities Board	2001-2008	2010-2021	.14-5.75%	733,685
Proprietary Funds:				
University Revenue Bonds	1992-2009	2010-2040	.18-6.50%	1,239,675

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2009 are as follows (expressed in thousands):

	Annual Debt Service						
	Governmental Activities			Business-type Activities			
Fiscal Year	Total Principal	Total Interest	Total	Total Principal	Total Interest	Net Payments (Receipts) on Swap Agreement	Total
2010	$ 154,395	$ 159,390	$ 313,785	$ 51,960	$ 55,366	$ 3,692	$ 111,018
2011	162,520	153,300	315,820	58,505	52,017	3,615	114,137
2012	170,705	145,064	315,769	53,050	49,355	3,533	105,938
2013	179,435	136,373	315,808	58,850	46,882	3,547	109,279
2014	188,515	127,270	315,785	61,470	44,174	3,357	109,001
2015-2019	1,090,790	486,237	1,577,027	269,000	180,974	15,274	465,248
2020-2024	840,600	235,306	1,075,906	223,295	127,370	12,256	362,921
2025-2029	304,585	73,717	378,302	222,960	75,404	8,409	306,773
2030-2034	160,035	20,484	180,519	149,655	37,140	3,405	190,200
2035-2039	-	-	-	88,355	11,790	-	100,145
2040	-	-	-	2,575	117	-	2,692
Total	$ 3,251,580	$ 1,537,141	$ 4,788,721	$ 1,239,675	$ 680,589	$ 57,088	$ 1,977,352

B. GRANT ANTICIPATION NOTES

Grant Anticipation Notes (GANs) are issued by the ADOT and secured by revenues received from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues. The original amount of GANs issued in prior years and outstanding at the start of the fiscal year was $298.280 million. During the year, GANs totaling $55.420 million were issued to pay the costs of projects (as specified) and the costs of issuing the bonds.

The ADOT has pledged federal revenues to repay $329.650 million in outstanding GANs issued since 2003. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona. The bonds are payable solely from federal revenues and are payable through 2016. The total principal and interest remaining to be paid on the bonds is $394.800 million. Principal and interest paid for the current year and total pledged revenues were $38.500 million and $532.000 million, respectively. The annual principal and interest payments on the bonds required 7.20% of the pledged revenues.

Grant Anticipation Notes currently outstanding are as follows (expressed in thousands):

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2009
Governmental Activities:				
Department of Transportation	2004-2009	2010-2016	2.50-5.00%	$ 329,650

Future debt service principal and interest payments on Grant Anticipation Notes issues for fiscal years ended June 30 are summarized below (expressed in thousands):

	Annual Debt Service		
	Governmental Activities		
Fiscal Year	Total Principal	Total Interest	Total Debt Service
2010	$ 25,170	$ 16,370	$ 41,540
2011	70,570	14,835	85,405
2012	43,885	11,404	55,289
2013	45,340	9,284	54,624
2014	55,265	7,121	62,386
2015-2016	89,420	6,165	95,585
Total	$ 329,650	$ 65,179	$ 394,829

C. CERTIFICATES OF PARTICIPATION

Governmental Activities

1. Department of Administration

The State has issued COPs to finance construction or improvements of office buildings that are primarily leased to State agencies. The State's obligation to make lease payments and any other obligations of the State under the lease are subject to, and dependent upon, annual appropriations made by the State Legislature and annual allocations of such appropriations being made by the Department of Administration for such purpose. The Department of Administration agrees to use its best efforts to budget, obtain, allocate, and maintain sufficient appropriated monies to make lease payments. In the event any such appropriation and allocation is not made, the leases will terminate and there can be no assurance that the proceeds for the re-leasing or sale of the projects will be sufficient to pay principal and interest with respect to the then outstanding COPs. The scheduled payments of principal and interest with respect to the COPs are guaranteed under certificate insurance policies. The State's obligation to make lease payments does not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the State is pledged to make payments of principal or interest due with respect to the COPs. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

2. School Facilities Board

In prior fiscal years, the SFB refinanced various COPs through advance-refunding arrangements. Under the terms of the refundings, sufficient assets to pay all principal, redemption premiums, if any, and interest on the refunded COPs have been placed in irrevocable trust accounts at commercial banks and invested in U.S. securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased COPs are not reflected in the accompanying financial statements. Refunded COPs for the SFB at June 30, 2009 totaled $311.130 million.

On November 14, 2008, the SFB, through The Bank of New York Mellon Trust Company, NA (BNY), issued COPs Series 2008 for $580.035 million. The 2008 COPs include $430.835 million of serial certificates with interest rates ranging from 4.00% to 5.75% and maturity dates ranging from 2011 to 2024. The 2008 COPs also include two term certificates consisting of $89.655 million, with an interest rate of 5.13% due September 1, 2021, and $59.545 million, with an interest rate of 5.25% due September 1, 2023. The 2008 COP certificates maturing on or after September 1, 2019 are subject to optional prepayment, prior to maturity, without premium. The 2008 COP term certificates maturing on September 1, 2021 and September 1, 2023 are subject to mandatory prepayment without premium. The State realized net proceeds of $581.000 million after receipt of $11.960 million net original issue premium, deposit to BNY Certificate Account of $8.096 million for capitalized interest, and payment of $2.899 million of issuance costs, including underwriters' discount. The 2008 COPs were issued to: (i) finance the costs of acquiring leasehold interests in school sites and certain school facilities, which will be subleased to various schools districts within the State, as well as the costs of other new school facilities, (ii) pay capitalized interest with respect to the 2008 COPs, and (iii) pay the costs of issuance.

Business-Type Activities

3. Universities

a. University of Arizona

The U of A utilizes COPs and various capital leases to acquire buildings, equipment, and land. The COPs are generally callable, and the capital leases are subject to prepayment.

In fiscal year 2003, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 2001B. At June 30, 2009, the outstanding principal balance for the COPs Series 2001B was $2.905 million, which will be paid by investments held in an irrevocable trust with a fair market value of $3.132 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

In fiscal year 2005, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 2001A. At June 30, 2009, the total outstanding principal balance for the COPs Series 2001A was $8.730 million, which will be paid by investments held in an irrevocable trust with a fair value of $8.931 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

In fiscal year 2007, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 2001A, 2001B, and 2002A. At June 30, 2009, the total outstanding principal balance for the COPs Series 2001A, 2001B, and 2002A was $59.195 million, which will be paid by investments held in an irrevocable trust with a fair value of $60.333 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

b. Arizona State University

At June 30, 2009, the ASU has issued fixed rate COPs. The ASU's non-bonded debt consists of various issues of COPs that are generally callable at a prescribed date with interest payable semi-annually. Certain COPs of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased COPs are not included in the accompanying financial statements. The principal amount of all such COPs outstanding at June 30, 2009 was $65.400 million.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2009 totaled $13.000 million.

A summary of the COPs issued as of June 30, 2009 is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Governmental Activities:					
Department of Administration:					
Refunding Certificates of 92A, 92C, & 1091	2001	2012	$ 57,930	$ 11,490	4.00 – 5.25
Health Lab/HRIS 2002A	2002	2023	63,270	40,605	4.13 – 5.50
Refunding Certificates of 92B	2003	2011	75,295	35,330	3.60 – 5.50
Refunding Certificates of 93B	2004	2012	16,725	7,270	3.75 – 5.00
1000 Bed Prison 2004B	2004	2019	31,965	24,820	4.00 – 5.25
4000 Bed Prison, Wastewater Upgrades, Forensic Unit 2008A	2008	2028	238,990	238,990	3.25 – 5.00
School Facilities Board:					
New School Construction 2003A	2003	2014	372,730	122,330	3.25 – 5.00
New School Construction 2003B	2004	2015	194,610	81,680	3.00 – 5.25
New School Construction 2004A	2004	2019	47,160	35,795	2.50 – 5.00
New School Construction 2004B	2005	2017	190,040	102,060	4.00 – 5.25
New School Construction 2004C	2005	2020	47,585	40,175	4.75 – 5.00
Refunding Certificates of 2003A	2005	2018	201,125	198,850	2.75 – 5.00
Refunding Certificates of 2003B	2005	2019	80,055	77,905	2.75 – 5.00
Refunding Certificates of 2004B	2005	2020	53,045	52,535	2.75 – 5.00
New School Construction 2008	2009	2024	580,035	580,035	4.00 – 5.75
Total Governmental Activities:			$ 2,250,560	$ 1,649,870	
Business-Type Activities:					
Arizona State University:					
Towers Project	1991	2011	$ 4,500	$ 800	6.89
Downtown Center – 1999A	1999	2025	5,620	4,445	5.75
Downtown Center – 1999B	1999	2025	5,165	4,315	8.00
2002 Certificates of Participation	2002	2027	103,800	21,495	4.75
2004 West Campus – Refunding	2004	2010	22,495	5,855	2.36
2004 Certificates of Participation	2005	2031	80,275	76,385	4.89
2005A Certificates of Participation	2005	2031	110,115	104,500	4.36
2006 Certificates of Participation	2006	2031	15,810	14,890	4.52
2006 Refunding Certificates of Participation	2007	2027	65,890	64,580	4.15
University of Arizona:					
Fixed Student Union A	1999	2020	21,607	4,159	5.13 – 5.30
Park Std. Union/Learning Svcs/6th St Garage/TEP Bldg.	2001	2012	31,695	2,535	4.20 – 4.45
Gittings Bldg/Highland Infra/Life Sci.	2001	2014	21,425	2,185	4.75 – 5.00
Student Housing, Health Bldg., UA North	2002	2022	76,965	15,665	4.38 – 5.50
Meinel Bldg & Refund COPS 1994B	2002	2023	29,845	27,220	3.50 – 5.13
Refund COPS 1997 & Portion of Series 2001B	2003	2022	10,615	10,615	3.50 – 5.00
Med. Research. Bldg./Biomed Sci.&Biotech/Tech. Infra.	2004	2031	153,960	142,825	3.77 – 5.25
Chem.Bldg./Res.Life/Highland Pkg.Garage/Rfnd. COPS 1994A	2004	2029	42,020	33,620	3.60 – 5.25
Refund COPs 1999A	2005	2024	12,660	12,660	4.00 – 5.00
Refund COPs 1999	2005	2024	14,825	14,825	5.00
Refund COPs 2001A	2005	2022	16,330	16,330	4.13 – 5.00
Refund COPs 1999, 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	29,460	27,355	3.50 – 5.00
Refund COPs 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	58,650	57,525	3.63 – 5.00
Biomed Research Collaborative Bldg. Project	2006	2031	18,240	17,315	4.00 – 5.00
Refund COPs 2001A, 2001B, 2002A, 2004B	2007	2031	105,080	105,025	3.50 – 4.50
Northern Arizona University:					
2004 Certificates of Participation	2005	2030	37,585	35,715	2.50 – 5.13
2005 Certificates of Participation	2006	2030	40,255	38,180	3.00 – 5.00
2006 Certificates of Participation	2006	2030	12,445	11,810	4.00 – 4.50
Total Business-Type Activities:			$ 1,147,332	$ 872,829	
Total Certificates of Participation			$ 3,397,892	$ 2,522,699	

Principal and interest debt service requirements on COPs outstanding at June 30, 2009 are as follows (expressed in thousands):

	Annual Debt Service					
	Governmental Activities			Business-type Activities		
Fiscal Year	Total Principal	Total Interest	Total Amount Required	Total Principal	Total Interest	Total Amount Required
2010	$ 77,540	$ 80,647	$ 158,187	$ 32,315	$ 40,288	$ 72,603
2011	109,980	76,289	186,269	28,605	39,187	67,792
2012	115,430	70,835	186,265	34,802	38,433	73,235
2013	120,905	65,155	186,060	36,506	36,960	73,466
2014	126,870	58,978	185,848	38,303	35,190	73,493
2015-2019	680,635	192,220	872,855	228,947	144,254	373,201
2020-2024	360,235	60,705	420,940	242,896	85,267	328,163
2025-2029	58,275	5,938	64,213	164,485	35,075	199,560
2030-2034	-	-	-	65,970	3,241	69,211
Total	$ 1,649,870	$ 610,767	$ 2,260,637	$ 872,829	$ 457,895	$ 1,330,724

D. LEASES

1. Leases

The State has entered into capital lease agreements for the acquisition of buildings, telephone systems, copy machines, and other equipment. Capital lease assets and liabilities are reported on the government-wide Statement of Net Assets. A lease is reported as a capital lease if one or more of the following criteria are met:

- Title to or ownership of the asset is transferred to the State at the end of the lease.

- The lease contains a bargain purchase option.

- The lease term is equal to 75.00% or more of the useful life of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25.00% of the total useful life of the asset.)

- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90.00% of the fair market value of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25.00% of the total useful life of the asset.)

The future minimum lease payments for long-term capital leases as of June 30, 2009 are summarized below (expressed in thousands):

	Annual Debt Service	
Fiscal Year	Governmental Activities	Business-type Activities
2010	$ 29,502	$ 14,591
2011	27,839	14,582
2012	27,526	14,362
2013	26,990	14,293
2014	32,268	12,538
2015-2019	106,674	58,468
2020-2024	110,396	56,793
2025-2029	67,307	58,363
2030-2034	5,567	54,306
2035-2039	-	8,345
Total minimum lease payments	434,069	306,641
Less: amount representing interest	(110,545)	(131,188)
Less: amount representing executory costs	(87,399)	-
Present Value of Net Minimum Lease Payments	$ 236,125	$ 175,453

2. Capital Assets Financed through Capital Leases and Certificates of Participation

The following table summarizes the historical costs of assets acquired under capital leases and COPs (expressed in thousands):

	Governmental Activities	Business-type Activities
Land	$ 6,663	$ 6,882
Construction in progress	135,385	-
Buildings	585,637	1,020,037
Infrastructure	-	53,762
Improvements other than buildings	2,420	-
Equipment	71,147	23,540
	801,252	1,104,221
Less: accumulated depreciation	(191,007)	(144,773)
Carrying Value	$ 610,245	$ 959,448

E. COMPENSATED ABSENCES

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. The compensated absence liability attributable to governmental activities will be liquidated primarily by the General Fund. During fiscal year 2009, the State paid for compensated absences as follows: 82.39% from the General Fund, 12.03% from other funds, and 5.58% from other major funds.

F. CHANGES IN LONG-TERM OBLIGATIONS

The following is a summary of changes in Long-Term Obligations (expressed in thousands):

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Due Within One Year	Due Thereafter
Governmental Activities:						
Long-term Debt:						
Revenue bonds	$ 2,759,070	$ 621,050	$ (128,540)	$ 3,251,580	$ 154,395	$ 3,097,185
Grant anticipation notes	298,280	55,420	(24,050)	329,650	25,170	304,480
Certificates of participation	1,135,640	580,035	(65,805)	1,649,870	77,540	1,572,330
Capital leases	249,876	1,300	(15,051)	236,125	14,522	221,603
Installment purchase contracts	8,908	2,756	(5,321)	6,343	3,591	2,752
Notes payable	22,838	23,139	(3,309)	42,668	3,451	39,217
Premiums and discounts on debt	242,816	70,083	(27,286)	285,613	30,979	254,634
Deferred amounts on refundings	(13,145)	-	3,974	(9,171)	(3,974)	(5,197)
Total Long-term Debt	4,704,283	1,353,783	(265,388)	5,792,678	305,674	5,487,004
Other Long-term Liabilities:						
Compensated absences	252,323	262,382	(234,292)	280,413	171,738	108,675
Pollution remediation obligations	-	23,712	(899)	22,813	1,092	21,721
Total Other Long-term Liabilities	252,323	286,094	(235,191)	303,226	172,830	130,396
Total Long-term Obligations	$ 4,956,606	$ 1,639,877	$ (500,579)	$ 6,095,904	$ 478,504	$ 5,617,400
Business-type Activities:						
Long-term Debt:						
Revenue bonds	$ 902,255	$ 385,850	$ (48,430)	$ 1,239,675	$ 51,960	$ 1,187,715
Certificates of participation	903,843	196	(31,210)	872,829	32,315	840,514
Capital leases	179,052	2,945	(6,544)	175,453	6,127	169,326
Installment purchase contracts	13,024	7,935	(4,541)	16,418	4,040	12,378
Notes payable	1,022	-	(348)	674	314	360
Premiums and discounts on debt	38,211	9,149	(4,248)	43,112	1,966	41,146
Deferred amounts on refundings	(27,711)	-	2,417	(25,294)	(1,657)	(23,637)
Total Long-term Debt	2,009,696	406,075	(92,904)	2,322,867	95,065	2,227,802
Other Long-term Liabilities:						
Compensated absences	66,117	80,122	(75,970)	70,269	15,196	55,073
Total Other Long-term Liabilities	66,117	80,122	(75,970)	70,269	15,196	55,073
Total Long-term Obligations	$ 2,075,813	$ 486,197	$ (168,874)	$ 2,393,136	$ 110,261	$ 2,282,875

The above long-term obligations relating to governmental activities include internal service funds. Amounts for capital leases and compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets because $3.081 million of capital leases and $113.717 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net assets.

NOTE 8. INTERFUND TRANSACTIONS

INTERFUND BALANCES AND TRANSFERS

Interfund Receivables/Payables

Interfund balances as of June 30, 2009 are as follows (expressed in thousands):

Due From	Due To: General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Universities Funds	Non-Major Enterprise Funds	Internal Service Funds	Total Due To
General Fund	$ -	$ -	$ 1,703	$ 295,263	$ 254,138	$ 9	$ 1,851	$ 552,964
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	1,789	-	-	2,908	-	77	-	4,774
Land Endowments Fund	12	-	-	24,552	-	-	1,647	26,211
Non-Major Governmental Funds	11,912	8	-	1,688	-	-	448	14,056
Unemployment Compensation Fund	2	-	-	196	-	-	-	198
Lottery Fund	8,058	-	-	587	-	-	-	8,645
Non-Major Enterprise Funds	-	-	-	-	-	-	1	1
Internal Service Funds	1,157	-	-	1	-	-	9	1,167
Total Due From	$ 22,930	$ 8	$ 1,703	$ 325,195	$ 254,138	$ 86	$ 3,956	$ 608,016

Interfund balances represent (1) amounts due to and from the internal service funds for goods and services rendered, and (2) cash transferred between funds for various interfund activities subsequent to the balance sheet date. The cash is recorded in the fund which initiated the transfer, and a corresponding liability is recorded. The receiving fund records an interfund receivable.

Interfund Transfers

Transfers for the year ended June 30, 2009 are as follows (expressed in thousands):

Transferred From	Transferred To: General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Universities Fund	Industrial Commission Special Fund	Non-Major Enterprise Funds	Internal Service Funds	Total Transfers Out
General Fund	$ -	$ 1,183	$ 8	$ 46,837	$ 1,075,756	$ -	$ 2,800	$ -	$ 1,126,584
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	349,626	-	-	255,642	-	-	500	-	605,768
Land Endowments Fund	-	-	-	66,501	-	-	-	-	66,501
Non-Major Governmental Funds	331,646	251	-	32,117	-	6,000	97	-	370,111
Unemployment Compensation Fund	6,224	-	-	2,050	-	-	-	-	8,274
Lottery Fund	64,125	-	-	26,813	-	-	-	-	90,938
Non-Major Enterprise Funds	2,935	-	-	-	-	-	-	-	2,935
Internal Service Funds	60,801	1,464	-	44	-	-	-	1,087	63,396
Total Transfers In	$ 815,357	$ 2,898	$ 8	$ 430,004	$ 1,075,756	$ 6,000	$ 3,397	$ 1,087	$ 2,334,507

Interfund transfers represent legally authorized non-exchange transfers of funds. These transfers include: (1) legislative appropriations from the General Fund, (2) other legislative transfers, (3) statutorily required transfers, (4) transfers related to the elimination of funds, and (5) transfers for debt service.

NOTE 9. FUND DEFICIT

A. GENERAL FUND

The General Fund deficit of $978.278 million is primarily due to lower-than-expected economic growth and resulted in revenues falling short of budgeted levels. For fiscal year 2009, expenditures were $21.1 billion, while revenues were $19.5 billion. Sales tax and income tax revenues were significantly impacted by these economic conditions. Reported sales tax and income tax decreased by $780.330 million, or 14.32%, and $1.0 billion, or 24.84%, as compared to fiscal year 2008, respectively.

B. INDUSTRIAL COMMISSION SPECIAL FUND

The Industrial Commission Special Fund (Special Fund) deficit increased in the amount of $15.265 million, from $30.596 million to $45.861 million, during fiscal year 2009. The main contributor to the increase in the Special Fund deficit was the net decrease in fair value of investments of $30.206 million during fiscal year 2009. The Special Fund is responsible for paying all current and future Arizona workers' compensation claims of insolvent insurance carriers and self-insured plans, which accounted for $238.150 million of the $378.520 million total actuarial liability at June 30, 2009. Some of the claims expense will be recovered over a period of years as the Special Fund receives liquidation distributions from the insolvent companies.

A 1.50% Special Fund assessment, under ARS §23-1065(A), was levied beginning in calendar year 2004 because of the growth in insolvent carrier liabilities. Furthermore, in 2005, ARS §23-1081(B) was amended to permit a surplus in the Industrial Commission Administrative Fund to be transferred to the Special Fund when the Special Fund is not actuarially sound. During fiscal year 2009, $6.000 million was transferred from the Administrative Fund to the Special Fund.

C. HEALTHCARE GROUP OF ARIZONA

As of June 30, 2009, the Healthcare Group of Arizona (HCG) had a fund deficit of $10.789 million as a result of significant losses in prior fiscal years. In fiscal years 2008 and 2009, HCG revenues were sufficient to cover all expenses incurred in the respective years. In addition to HCG's fiscal year 2009 operating income of $3.157 million, HCG received a net $2.648 million General Fund subsidy in order to reduce its liabilities owed to its contracted HMOs for reconciliations incurred in previous fiscal years. HCG management also made significant administrative and programmatic changes in order to eliminate future losses and reduce the net deficit. Some significant changes included the elimination of the PPO program in Maricopa and Pima Counties, employers with groups of one being placed in a separate group with adjusted premiums to cover higher cost of care, and a continued decrease in administrative costs. As a result, HCG was able to reduce their net deficit in fiscal year 2009 by $5.008 million.

For fiscal year 2010, management is projecting that HCG will continue to operate without incurring additional losses. The following table summarizes HCG's reconciliation liability, as of June 30, 2009, for fiscal year 2009 activity (in thousands of dollars):

	Reconciliation Period			
	FY 07	FY 08	FY 09	Total
Balance June 30, 2008	$ 14,877	$ 4,324	$ -	$ 19,201
Payments made	(5,281)	-	(150)	(5,431)
Accruals and adjustments	(13)	(502)	150	(365)
Balance June 30, 2009	$ 9,583	$ 3,822	$ -	$ 13,405

The remaining reconciliation liability will be paid by allocating 2.00% of medical premium revenues for a reconciliation reserve, from residual earnings, and from any State subsidies provided by the Legislature.

There can be no assurance that operating improvements realized over the past two fiscal years will continue to occur or will provide sufficient cash to fund operating expenses. Additionally, if there is an adverse change in enrollment and the premium increases are not sufficient to fund the reserves for past losses and future medical claims experience costs, then HCG will be required to further scale back administrative expenditures to the level supported by actual enrollment.

Subsequent to June 30, 2009, HCG took over the provider payment function from HCG's preferred point of service third party administrator. As a result of provider payment reconciliations and payment history research, HCG determined that due to certain errors on the part of the third party administrator, approximately $996 thousand was owed to providers for services provided in fiscal years 2009 and prior. This amount is reflected on the Statement of Revenues, Expenses and Changes in Fund Net Assets as an other non-operating expense. HCG is currently working with AHCCCS legal counsel to resolve this ongoing issue and is seeking reimbursement for this loss.

Even though deficit reduction measures resulted in a net gain for fiscal year 2009, a net deficit of $10.789 million still exists as of June 30, 2009. It is not anticipated in the near future that operations will generate sufficient cash flow to significantly pay down the deficit. Additionally, should the health plans elect to call the prior year reconciliation liabilities before HCG has sufficient funds to provide such payments and new terms are not negotiated, or the Legislature does not provide HCG with additional subsidies, it raises substantial doubt in HCG's ability to continue as a going concern.

In conclusion, even though HCG posted operating income of $3.157 million in fiscal year 2009, and management currently projects that the positive trend will continue, $10.789 million remained as a net deficit at year end due to the outstanding reconciliation liability owed to the HMO's for prior fiscal years. It is not anticipated in the near future that operations will generate sufficient cash flow to entirely pay off the outstanding obligation.

Accordingly, the accompanying financial statements have been prepared assuming that HCG will continue as a going concern. The matters discussed above raise substantial doubt about HCG's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should HCG be unable to continue as a going concern.

D. ARIZONA HIGHWAYS MAGAZINE

The Arizona Highways Magazine had a fund deficit of $278 thousand which stemmed from four legislatively mandated cash transfers to the General Fund totaling $1.483 million in fiscal year 2009. These transfers were mandated by House Bill 2209, section 46, and Senate Bill 1001, sections 4, 5, and 7.

E. RISK MANAGEMENT FUND

The Risk Management Fund (RMF) deficit of $313.425 million is primarily due to the RMF receiving annual funding only for expected paid claims (self-insured and excess insurance expenditures, legal and other claim related expenditures, and administrative expenditures), and not being funded for non-current accrued insurance losses. Accrued insurance losses of the RMF are not considered when determining funding for each fiscal year.

F. RETIREE SICK LEAVE FUND (RASL)

The RASL pays retirees for their accumulated sick leave upon retirement from State service when they meet certain criteria. Beginning with fiscal year 2008, the State applied the provisions of GASB Statement No. 16 – *Accounting for Compensated Absences* to the RASL. This results in a liability in the RASL which is significantly greater than the actual funding of the RASL, because the liability is based upon an estimate of the total RASL benefit earned by existing employees at the balance sheet date; however, State agencies pay for only one year based on a 0.40% charge on gross payroll. The $107.609 million fund deficit is primarily due to the above funding mechanism.

NOTE 10. JOINT VENTURE

The U of A is a participant in the Large Binocular Telescope Corporation (LBT). The LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the U of A and the Arcetri Astrophysical Observatory in Florence, Italy (Arcetri). The purpose of the joint venture is to design, develop, construct, own, operate, and maintain a binocular telescope currently being constructed in Arizona. The current members of the LBT are the U of A, INAF Astrophysical Observatory, Research Corporation, Ohio State University, and the LBT Beteiligungsgesellschaft.

The U of A has committed resources equivalent to 25.00% of the LBT's construction costs and annual operating costs. As of June 30, 2009, the U of A has made cash contributions of $18.159 million toward the project's construction costs, which were recorded as long-term investments on the Statement of Net Assets. The U of A's financial interest represents its future viewing/observation rights. As of December 31, 2007, the assets had been substantially completed and the telescope has entered the commissioning phase. During calendar year 2007, the telescope has become operational for research purposes; thus, depreciation of the property and equipment has commenced. The U of A recorded its proportionate share of the use of the viewing/observation rights, $726 thousand in calendar year 2008, as a reduction in its investment. At June 30, 2009, the investment totaled $16.757 million. According to the audited financial statements of the LBT for the year ended December 31, 2008, assets, liabilities, revenues, and expenses totaled $125.000 million, $3.000 million, $15.000 million, and $11.000 million, respectively.

The LBT's separate audited financial statements can be obtained from the University of Arizona Comptroller at the University of Arizona, Financial Services, P.O. Box 3310, Tucson, AZ 85722-3310.

NOTE 11. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE

A. INSURANCE LOSSES

The Department of Administration – Risk Management Division manages the State's property, environmental, general liability, and workers' compensation losses. The State has determined that the management of these losses can be performed effectively and efficiently through the Risk Management Division. Consequently, all agencies are required to participate in this program. The State's Risk Management Division evaluates the proper mix of purchased commercial insurance and self-insurance annually.

The Industrial Commission Special Fund (Special Fund) provides payment of workers' compensation losses which are not covered by the State Compensation Fund, the Department of Administration – Risk Management Division, private insurance carriers, or self-insured employers. The workers' compensation claims paid by the Special Fund encompass claims against uninsured or underinsured employers and insolvent insurance carriers and would include payments for vocational rehabilitation, medical conditions incurred prior to 1973, apportionment claims for pre-existing industrial and non-industrial related physical impairments, and compensation for loss of earnings associated with the disability.

The State records claims liability when the reported loss is probable and reasonably estimated. On an annual basis, independent actuarial firms are engaged to estimate the State's total year-end outstanding claims liability, which takes into account recorded claims and related allocated claims adjustment expenditures, loss development factors, and an estimate for incurred but not reported claims. There were no non-incremental claims adjustment expenses included in the liability for claims and adjustments.

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund (internal service fund) and the Special Fund (enterprise fund). As discussed in the above paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Division will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Interest and dividend earnings of investments and assessments on gross premium revenues currently fund the Special Fund. To provide funding for workers' compensation claims, the Special Fund may direct payment to the State Treasurer an amount not to exceed one and one-half percent of all premiums received by the State Compensation Fund, private carriers, and self-insured plans during the immediately preceding calendar year. Beginning in calendar year 2004, this 1.50% assessment was levied under ARS §23-1065(A) because of a deficit net assets balance.

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2009. The estimated loss reserve of $378.520 million is $3.618 million lower than the $382.138 million reserve estimate at June 30, 2008. The most significant category of change was the insolvent carrier claims that decreased in the amount of $4.621 million from $242.771 million at June 30, 2008 to $238.150 million at June 30, 2009. The reserves were discounted at an assumed rate of 2.89% for the compensation claims and zero percent for the medical claims. For medical benefits, it was assumed that the inflation in medical costs will equal the investment return earned by the Special Fund on those reserves.

The only Special Fund assessment levied in 2009 was the 1.50% assessment under ARS §23-1065(A). The .50% assessment under ARS §23-966(D), based on the insolvent carrier losses, and .50% assessment under ARS §23-1065(F), based on the total apportionment liability, were not levied in 2009. The Special Fund has filed pending proof of claim requests with ancillary receivers and liquidators holding deposits and surety bonds of several insolvent companies. Since the actual amount that will ultimately be received cannot be determined, the Special Fund will continue to recognize receipt of insolvent carrier deposits (settlement income) as revenue at the time received rather than recording a receivable.

Occasionally, the Risk Management Division agrees with claimants to purchase an annuity contract to settle specific claims when it is determined that it is in the best interest of the State to do so. In these instances, the State requires the claimant to sign an agreement releasing the State from any further obligation. As a result of these requirements, the likelihood that the State will be required to make future payments on these claims is remote.

There have been no significant reductions in the current fiscal year insurance coverage. There have been no settlements that have exceeded insurance premium coverage in the last three years.

The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2008 and June 30, 2009 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2008	$ 344,105	$ 84,363	$ 64,541	$ 363,927
2009	363,927	61,179	65,293	359,813
Industrial Commission Special Fund:				
2008	401,148	7,576	26,586	382,138
2009	382,138	24,467	28,085	378,520

B. LITIGATION

In *Roosevelt Elementary School District No. 66 vs. State of Arizona* and *Somerton Elementary School District No. 11 vs. State of Arizona*, the plaintiffs are seeking a declaration that Arizona's funding of the Building Renewal Fund for school district capital resources under ARS §15-2031 is unconstitutional. The actions were originally commenced in 1999 and 2002, but they were remanded by the Arizona Court of Appeals after its decision in *Roosevelt Elem. Sch. Dist. v. State of Arizona*, 205 Ariz. 594, 74 P.3d 258 (App. 2003). On remand, plaintiffs substituted some parties, leaving the plaintiff school districts as Globe Unified School District, Williams Unified School District, and Sierra Vista Unified School District, and discovery recommenced. In October, 2006, the court granted the State summary judgment, finding that the named school districts had failed to seek emergency funding under ARS §15-2022. The court indicated that if the districts proved subsequently that they had sought emergency funding and been rejected, and had exhausted all sources of State funding available to them for their facility needs, they might reinstate their claims. Plaintiff Globe Unified School District is no longer a party. The court later agreed to stay the judgment against plaintiffs through June 1, 2007, and plaintiffs successfully sought even further continuance on the inactive calendar. The plaintiffs moved to add a new plaintiff district, Tempe Union High School District, and to transfer the case to the active calendar and set it for trial. The State objected, and sought dismissal of the cases. The motions were argued in September, 2008, and the court issued an order requiring a further evidentiary hearing on the status of the plaintiff districts' alleged capital needs and financial resources for late February, 2009. In the meantime, plaintiff, Williams Unified School District decided not to continue as a plaintiff in the case. After considering the evidence presented in the evidentiary hearing, the trial court issued an order granting the State's cross-motion to dismiss the plaintiff's claims without prejudice but placing the case on the inactive calendar and providing that "should plaintiffs in the future establish that they have exhausted all appropriate sources of State funding and yet been denied emergency funds, their claims may be reinstated." After receiving the court's ruling, the plaintiffs filed a motion for reconsideration of the ruling. The court ordered the State to file a response, which the State did. The plaintiffs have filed their reply in support of the motion for reconsideration, and the parties are awaiting a ruling on the motion for reconsideration. The plaintiffs are not seeking damages. However, they are seeking a declaration that would require the State to provide additional funding for building maintenance and renewal needs. The plaintiffs are likely to argue that the Arizona State Legislature was required to fund according to the Building Renewal Fund Formula, which was ultimately suspended by the Arizona State Legislature. The formula-calculated amounts that were not funded for just the 1999-2000, 2001-2002, and 2002-2003 fiscal years amounted to almost $186.000 million. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State could incur losses in excess of $200.000 million.

In the *Mayer vs. Winkelman* case disclosed in prior fiscal years, the State prevailed on statute of limitation grounds.

The State has a variety of claims pending against it that arose during the normal course of its activities. Management believes, based on advice of legal counsel, losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the State. All losses for any unsettled litigation or contingencies involving workers' compensation, medical malpractice, construction and design, highway operations, employment practices, criminal justice, fidelity and surety, environmental property damage, general liability, environmental liability, building and contracts, auto liability, or auto physical damage are determined on an actuarial basis and included in the Accrued Insurance Losses of the internal service funds and the Industrial Commission Special Fund.

C. ACCUMULATED SICK LEAVE

Sick leave includes any approved period of paid absence granted an employee due to illness, injury, or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. State employees are eligible to receive payment for an accumulated sick leave balance of at least 500 hours, with a maximum of 1,500 hours, upon retirement directly from State service. The benefit value is calculated by taking the State employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25.00% for 500 hours to a maximum of 50.00% for 1,500 hours. The maximum benefit value is $30 thousand. The benefit is paid out in annual installments over three years. The RASL Fund is accounted for in the financial statements as an internal service fund and accounts for the retiree accumulated sick leave liability of $111.978 million.

D. UNCLAIMED PROPERTY

The State of Arizona's Uniform Unclaimed Property Act requires the deposit of certain unclaimed assets into a managed agency fund. A total of approximately $652.315 million (net of refunds issued) has been collected since the inception of the fund. The State is also holding securities valued at $21.509 million and mutual funds valued at $1.371 million. In accordance with ARS §44-313 and ARS §44-314, for fiscal year 2009, $28.554 million was deposited in the Department of Commerce Housing Fund, $10.383 million was deposited in the Racing Fund, and $10.879 million was deposited in the General Fund. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. This liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona. At June 30, 2009, $165.604 million of this liability is included as Due to Others in the General Fund.

E. CONSTRUCTION COMMITMENTS

The ADOT had outstanding commitments under construction contracts of approximately $1.1 billion at June 30, 2009.

	(in thousands)	
	Expenditures to Date	Remaining Commitments
Construction contracts:		
Rural roadways	$ 408,912	$ 264,056
Small urban roadways	72,713	51,786
Urban roadways	109,005	42,002
Large urban roadways	712,495	299,316
Sub-total	1,303,125	657,160
Design contracts	811,432	94,255
Other commitments	437,732	385,832
Total	$ 2,552,289	$ 1,137,247

F. ARIZONA STATE LOTTERY

Annuities are purchased for all prizes over $400 thousand for which winners will receive the jackpot in annual installments for The Pick on-line game. These annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody's, Duff & Phelps, or Weiss. The Lottery may incur future liabilities on these annuities. Aggregate future payments to prize winners on existing annuities totaled approximately $76.105 million at June 30, 2009. Approximately $56.652 million of the total aggregate future payments at June 30, 2009 relate to annuities purchased from five separate insurance companies, of which approximately $13.026 million relates to a single insurance company.

NOTE 12. TOBACCO SETTLEMENT

The State is one of many states participating in the settlement of litigation with the tobacco industry over the reimbursement of healthcare costs. The settlement money is intended to compensate the State for costs it has incurred in providing health and other services to its citizens that were necessitated by the use of tobacco products. The State expects to receive settlement payments through 2025.

The State recorded tobacco settlement revenue of $125.571 million and $127.709 million in the fund statements and the government-wide statements in fiscal year 2009, respectively. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable. These adjustments include a volume adjustment, which could reflect any decreasing cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable and there is no obligation for the tobacco companies to make settlement payments until cigarettes are shipped, the State did not record a receivable for the future payments related to cigarette sales after June 30, 2009.

NOTE 13. PUBLIC-PRIVATE PARTNERSHIP

The State of Arizona has entered into a partnership agreement with Accenture. The purpose of this partnership is to fund the Department of Revenue's technology needs. The agreement stipulates that Accenture will be paid 85.00% of the new revenue generated from the system enhancements, even if this amount is insufficient to cover the total contract cost. Accordingly, Accenture had created a system that increases the State's efficiency in collecting tax revenues. As of June 30, 2009, the State has paid Accenture $151.129 million towards the $160.936 million contract cost. Included in the $160.936 million contract cost is capitalized interest charges of $7.000 million and application support charges of $54.610 million.

NOTE 14. TREASURER'S WARRANT NOTES

On April 15, 2009 through April 27, 2009, May 13, 2009 through May 20, 2009, and May 22, 2009 through May 26, 2009, pursuant to ARS §35-185.01 and §35-185.02, the State Treasurer issued Treasurer's Warrant Notes (TWNs) in daily amounts ranging from $5.163 million to $339.904 million in lieu of immediate redemption of warrants presented to the State Treasurer for payment of authorized General Fund expenditures. The TWNs were purchased by the State's internal investment pools. TWNs are issued only in the event the State Treasurer has insufficient funds to redeem warrants presented for payment of authorized expenditures of the State's General Fund. TWNs are issued daily depending on cash flow needs, and are redeemed the next business day. Any time TWNs are outstanding, all monies which would normally be deposited into the State General Fund, except amounts sufficient to pay constitutional officers of the State, shall be deposited into the TWN Redemption Fund to redeem outstanding TWNs. No TWNs were outstanding at June 30, 2009.

NOTE 15. SUBSEQUENT EVENTS

On December 8, 2009, the NAU issued $108.860 million of System Revenue Bonds, Taxable Series 2009A and $5.640 million of System Revenue Bonds, Tax Exempt Series 2009B. These bonds have maturity dates ranging from 2015 to 2024 and interest rates ranging from 4.84% to 5.84%.

On January 13, 2010, the State of Arizona issued COPs, Series 2010A for $709.090 million. The 2010A COPs include $709.090 million of serial certificates with interest rates ranging from 2.00% to 5.25% and maturity dates ranging from 2013 to 2030. The 2010A COP certificates maturing on or after October 1, 2020 are subject to optional redemption prior to maturity, without premium. The 2010A COP certificates are subject to extraordinary redemption prior to maturity from the net proceeds of insurance or condemnation awards, without premium. The 2010A COP certificates maturing on or after October 1, 2017 are subject to mandatory redemption and shall be redeemed prior to maturity from the Mandatory Prepayment Amounts, if any, calculated in accordance with the Lease, at the direction of the State, on any date on or after October 1, 2016 in whole or in part, at the "Adjusted Redemption Value" plus premium. The State realized net proceeds of $735.419 million after receipt of $34.187 million net original issue premium and payment of $7.858 million of issuance costs, including underwriters' discount. The 2010A COPs are being issued to: (i) finance the costs of acquiring leasehold interests in State-owned buildings by U.S. Bank, NA, as trustee; upon receipt of the 2010A COP proceeds by the trustee, the trustee will immediately purchase the State property as defined in the debt documents and (ii) pay the costs of issuance.

On March 30, 2010, the ASU issued System Revenue Bonds totaling $178.350 million, consisting of $165.980 million of Taxable Series 2010A (2010A Bonds) with interest rates ranging from 4.01% to 6.30% and $12.370 million of Tax-Exempt Series 2010B (2010B Bonds) with interest rates ranging from 3.00% to 5.00%. The 2010A Bonds and the 2010B Bonds have final maturities of 2030 and 2039, respectively. These bonds are being issued to finance various projects of the ASU.

On April 28, 2010, the NAU issued $64.785 million of Stimulus Plan for Economic and Educational Development Revenue Bonds, Taxable Series 2010. These bonds have maturity dates ranging from 2017 to 2031 and interest rates ranging from 4.27% to 6.59%.

Throughout most of fiscal year 2010, the State Treasurer issued TWNs in lieu of immediate redemption of warrants presented to the State Treasurer for payment of authorized General Fund expenditures. At May 7, 2010, the outstanding balance of the TWNs was approximately $594.316 million.

The State has recently experienced its worst economic downturn in at least 50 years. Over the period of fiscal year end 2007 through February 2010, the total revenue from the State's major tax sources (sales and use, individual and corporate) has decreased by approximately one-third. With revenues falling short of budgeted levels, the State's General Fund was faced with a fiscal year 2009 ending balance shortfall and approximately a $3.2 billion on-going structural deficit. The State Legislature has enacted a series of laws in response. Significant measures include deep cuts to education and health/welfare programs. Additionally, the State Legislature referred a temporary 1-cent increase in the transaction privilege tax to voters. The special election will be held on May 18, 2010. If approved, the increase would become effective June 1, 2010 and expire May 31, 2013. The State Legislature has already enacted laws for additional cuts to State spending authority that will be triggered if the temporary tax is not passed. Accordingly, the State has adopted a workable budget for fiscal year 2010 and 2011, and has made significant progress towards eliminating the long-term structural deficit.

NOTE 16. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

The accounting policies of the State's component units conform to U.S. GAAP applicable to governmental units adopted by the GASB, except for those component units affiliated with the State's Universities. Because the component units affiliated with the Universities are not governmental entities, they follow FASB statements for not-for-profit organizations for financial reporting purposes. Each component unit has a June 30 year-end with the exception of the Law College Association, which has a May 31 year-end.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Measurement Focus and Basis of Accounting

The State's component units and component units affiliated with the Universities are presented using the economic resources measurement focus and the accrual basis of accounting. The State's component units follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The State has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989, except for the UMC, which has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

2. Net Assets

Component units affiliated with the Universities classify net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the component units affiliated with the Universities and changes therein are classified and reported as follows:

- *Unrestricted net assets* include assets and contributions that are not restricted by donors or for which such restrictions have expired.

- *Temporarily restricted net assets* include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundations), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. Donor-restricted contributions are classified as temporarily restricted if the restrictions are satisfied in the same reporting period in which the contributions are received; however, the component units affiliated with the ASU, other than the ASU Foundation, classify such contributions as unrestricted.

- *Permanently restricted net assets* include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity and only the board-approved payout be made available for program operations in accordance with donor restrictions.

3. Cash and Cash Equivalents

Cash and cash equivalents includes monies held in certificates of deposit, overnight money market accounts, and money market funds. Cash and cash equivalents are stated at cost, which approximates fair value.

4. Investments

Investments are recorded in accordance with Statements of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. The fair values of publicly traded securities are based on quoted market prices and exchange rates, if applicable. Absolute return limited partnership interests are recorded at fair value based on quoted market prices (where the underlying investment is a mutual fund) or as determined by the fund manager. Purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the increases or decreases in net assets in the Statement of Activities.

5. Income Taxes

The Foundations qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, accordingly, there is no provision for income taxes in the accompanying financial statements, except for the Collegiate Golf Foundation and the ACFFC. In addition, they qualify for the charitable contribution deduction and have been classified as organizations that are not private foundations. Any income determined to be unrelated business taxable income would be taxable. The ACFFC and NACFFC are exempt from taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code. The ACFFC does not qualify for the charitable contribution deduction.

6. Annuities Payable and Other Trust Liabilities

Annuities payable and other trust liabilities for the U of A Foundation are stated at the actuarially computed present value of future payments to the annuitants. The excess of the fair values of assets received (classified according to their nature in the Statement of Financial Position) pursuant to annuity agreements over the actuarially computed annuities payable (using market rates in effect on the contribution date) is recorded as contributions in the year received.

7. Contributions

Contributions are recorded in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

8. Net Assets Released from Restriction

Expenses are not incurred in the temporarily restricted or permanently restricted net asset categories. As the restrictions on these net assets are met, the assets are reclassified to unrestricted net assets. The total assets reclassified are reported as net assets released from restriction in the accompanying Statement of Activities.

9. Use of Estimates

The preparation of the Universities-affiliated component units' financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. DEPOSITS AND INVESTMENTS

1. Component Units

a. Deposits and Investment Policies

The investments of the WIFA are stated at fair value, except guaranteed investment contracts, which are stated at cost since they are non-participating contracts. The investments of the UMC are stated at fair value.

b. Custodial Credit Risk - Deposits and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from the outside party. The WIFA and the UMC do not have a formal policy regarding custodial credit risk for deposits.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The WIFA and the UMC do not have a formal policy regarding custodial credit risk for investments. The investments of the UMC are uninsured, unregistered, and held by brokers in the UMC's name.

c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The WIFA does not have a formal policy regarding interest rate risk. The following table presents the interest rate risk for the WIFA utilizing the segmented time distribution method as of June 30, 2009 (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Corporate asset backed securities	$ 2,137	$ 2,137	$ -	$ -	$ -
Corporate notes	20,312	20,312	-	-	-
Guaranteed investment contracts	80,893	-	-	80,893	-
Money market mutual funds	3,021	3,021	-	-	-
Repurchase agreements	30,570	30,570	-	-	-
U.S. agency securities	32,975	17,998	14,977	-	-
U.S. agency mortgage backed securities	1,260	-	-	-	1,260
U.S. Treasury securities	11,827	11,827	-	-	-
Total	$ 182,995	$ 85,865	$ 14,977	$ 80,893	$ 1,260

The UMC's investment policy limits the portfolio duration related to debt securities to the Lehman Brothers Intermediate Government/Credit Index. This is an index based on all publicly issued intermediate government and corporate debt securities with average maturities of four to five years. The following table presents the estimated maturities of the UMC's investments, utilizing the segmented time distribution method as of June 30, 2009 (expressed in thousands):

			Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Commercial paper	$ 15,610	$ 15,610	$ -	$ -	$ -
Corporate fixed income	6,658	-	6,658	-	-
Guaranteed investment contracts	4,396	153	-	-	4,243
Money market mutual funds	85,656	85,656	-	-	-
Structured notes	22,632	-	22,632	-	-
U.S. Treasury securities	8,948	8,948	-	-	-
Total	$ 143,900	$ 110,367	$ 29,290	$ -	$ 4,243

d. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. The WIFA does not have a formal policy regarding credit risk. The following table presents the WIFA's investments which were rated by S & P's and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2009 (expressed in thousands):

Investment Type	**Fair Value**	**AAA**	**AA**	**A**	**A1**	**BB**	**Not Rated**
Corporate asset backed securities	$ 2,137	$ 2,137	$ -	$ -	$ -	$ -	$ -
Corporate notes	17,816	370	4,639	11,582	-	1,225	-
Guaranteed investment contracts	80,893	80,893	-	-	-	-	-
Money market mutual funds	3,021	-	-	-	-	-	3,021
U.S. agency securities	32,975	31,212	-	-	1,763	-	-
U.S. agency mortgage backed securities	1,260	1,260	-	-	-	-	-
Total	$ 138,102	$ 115,872	$ 4,639	$ 11,582	$ 1,763	$ 1,225	$ 3,021

The UMC's investment policy establishes ranges which limit the level of investments held in domestic and international equities, fixed income securities, and alternative investment strategies. Investment in fixed income securities is limited to investment grade securities with a credit rating of BBB, or equivalent, or better. The portfolio of fixed income securities must maintain an average rating of A or better at all times. The following table presents the UMC's investments which were rated by S & P's and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2009 (expressed in thousands):

Investment Type	**Fair Value**	**AAA**	**AA**	**A**	**Not Rated**
Alternative investments	$ 2,893	$ -	$ -	$ -	$ 2,893
Commercial paper	15,610	-	-	-	15,610
Corporate fixed income	6,658	5,123	-	1,535	-
Guaranteed investment contracts	4,396	-	4,243	-	153
Hedge fund of funds	36,312	-	-	-	36,312
Money market mutual funds	85,656	-	-	-	85,656
Structured notes	22,632	-	17,553	5,079	-
Other	17,229	-	-	-	17,229
Total	$ 191,386	$ 5,123	$ 21,796	$ 6,614	$ 157,853

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. As of June 30, 2009, an investment in Bayerische Landesbank (fair value of $40.586 million) was approximately 22.18% of the WIFA's total investments, an investment in AIG Matched Funding Corp. (fair value of $25.153 million) was approximately 13.74% of the WIFA's total investments, an investment in Royal Bank of Canada (fair value $15.155 million) was approximately 8.28% of the

WIFA's total investments, and an investment in Federal Home Loan Mortgage Corporation (fair value $16.226 million) was approximately 8.87% of the WIFA's total investments.

f. Foreign Currency Risk

The UMC's investment policy permits it to invest a portion of its holdings in international equities, alternative, and managed future investments. The UMC's current holdings in international securities totaled approximately $23.217 million, or 18.05% of total investments not held by trustee. The following table summarizes the UMC's foreign currency risk as of June 30, 2009 (expressed in thousands):

Foreign Currency Risk by Investment Type at Fair Value
(Expressed in Thousands)

Currency	Fixed Income	Equities	Total
Australian Dollar	$ 14	$ 1,513	$ 1,527
Brazilian Real	4	26	30
British Pound Sterling	6	3,492	3,498
Canadian Dollar	6	887	893
Chilean Peso	-	45	45
Chinese Yuan	694	782	1,476
Czech Koruna	-	45	45
Danish Krone	1	93	94
Euro	1,470	7,245	8,715
Hong Kong Dollar	-	339	339
Hungarian Florint	-	109	109
Israeli Shekel	-	32	32
Japanese Yen	-	3,139	3,139
New Mexican Peso	-	45	45
New Zealand Dollar	3	251	254
Polish Zloty	-	39	39
Singapore Dollar	-	230	230
South African Rand	-	116	116
South Korean Won	-	67	67
Swedish Krona	4	400	404
Swiss Franc	-	884	884
Turkish Lira	-	77	77
Other	420	739	1,159
Total	$ 2,622	$ 20,595	$ 23,217

2. Universities-Affiliated Component Units

Investments of the Universities-affiliated component units include the following amounts at June 30, 2009. Investments are stated at fair value (expressed in thousands):

	ASU Foundation	ACFFC	U of A Foundation	NAU Foundation
Money market funds and cash equivalents	$ 57,763	$ 46,416	$ -	$ 1,132
Domestic/international equity securities and mutual funds	216,121	-	112,262	36,308
Fixed income	95,828	-	85,092	22,206
Absolute return limited partnerships and funds	-	-	98,807	-
Other investments	48,510	2,518	39,095	-
Total Investments	$ 418,222	$ 48,934	$ 335,256	$ 59,646

C. PROGRAM LOANS

The WIFA has made loans to local governments and others in Arizona to finance various projects pursuant to the requirements of the Clean Water and Safe Drinking Water Acts. The loans are generally payable in semi-annual installments due January 1 and July 1 of each year, including interest. However, several loans are payable monthly or quarterly. Changes in the program loans during fiscal year 2009 are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Clean Water Fund	$ 600,725	$ 128,709	$ (48,008)	$ 681,426
Drinking Water Fund	297,038	27,763	(13,586)	311,215
Total	$ 897,763	$ 156,472	$ (61,594)	$ 992,641

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes, or from special assessments. Most loans have a .30% to 4.00% annual administrative fee.

Some program loans require a monthly or quarterly payment into a debt service reserve to assure payments of the loans. The debt service reserve is a liability of the WIFA to the borrowers and interest on the reserve accrues to the borrowers.

D. PLEDGES RECEIVABLE

Pledges receivable (unconditional promises to give) are recorded at their net realizable value, which is net of a discount and any applicable loss allowance. The ASU Foundation’s pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 2.40% to 10.90%. An allowance for uncollectible pledges is estimated based on the ASU Foundation’s collection history and is recorded as a reduction to contribution support and revenue and an increase in the allowance for uncollectible pledges. The Sun Angel Foundation’s pledges receivable are recorded using a 5.14% discount rate for the year ended June 30, 2009.

Pledges receivable, as of June 30, 2009, include the following (expressed in thousands):

	ASU Foundation	Sun Angel Foundation
Gross pledges receivable	$ 152,740	$ 9,998
Present value discount	(32,776)	(753)
Allowance for uncollectible pledges	(13,517)	-
Net Pledges Receivable	$ 106,447	$ 9,245

E. DIRECT FINANCING LEASE AGREEMENTS

1. ASU Foundation

The ASU Foundation leases a portion of the Fulton Center building (the ASU Foundation's headquarters) to the ASU under a direct financing lease. At the end of lease, the ASU Foundation and affiliates will gift their portion of the building to the ASU and the ASU will receive title to the building. The ASU Foundation's net investment in this direct financing lease at June 30, 2009 is $27.605 million.

2. ACFFC

Pursuant to a Sublease Agreement, dated April 7, 2004, Nanotechnology Research, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the Research Park to the ASU. The Sublease Agreement commenced April 7, 2004, and continued until June 30, 2005, with successive automatic annual renewals for the period July 1 through June 30 of each year without action on the part of Nanotechnology or the ASU, through the period ending March 31, 2034. The Sublease Agreement is subject to early termination by Nanotechnology or the ASU upon the payment in full of the outstanding debt. Upon termination or expiration of the Sublease Agreement, Nanotechnology's interest in the premises, including all buildings and improvements on the leased premises, transfers to the ASU without further consideration. Therefore, the lease is classified as a direct financing capital lease. ACFFC's net investment in the Nanotechnology facility direct financing lease is $34.900 million at June 30, 2009.

Effective April 29, 2009, the Sublease Agreement was amended and the Series 2004 A&B Bonds were refunded by the Series 2009 Refunding Bonds. The refunding bonds effectively converted the interest payments from variable rate to fixed rate, with interest rates ranging from 4.00% to 6.40%.

Pursuant to the ASU Lease Agreement, dated July 1, 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the non-residential portion of Hassayampa Academic Village (HAV) to the ASU which consists of the academic, tutorial, retail, and food service facilities. The lease commenced on July 1, 2005 and continued until June 30, 2006 with annual renewals through June 30, 2045. Any right, title, or interest of McAllister (HAV) in and to the academic portions of the project will pass to the ASU without further cost upon payment in full of the Bonds by McAllister (HAV) of the ASU. Therefore, the lease is considered a direct financing capital lease. ACFFC's net investment in the McAllister (HAV) direct financing lease is $12.400 million at June 30, 2009.

Effective September 1, 2008, the ASU Lease agreement was amended and the Series 2005 A&B Bonds were refunded by the Series 2008 Refunding Bonds. The refunding bonds effectively converted the interest payments from variable rate to fixed rate, with interest rates ranging from 3.50% to 5.80%.

3. NACFFC

On May 19, 2005, the NAU entered into a lease purchase agreement with NACFFC. During the 28 year lease term, the NAU will make lease payments on two apartment style student housing complexes, Pine Ridge Village and McKay Village. The NACFFC recorded a sales-type lease receivable of $13.225 million in fiscal year 2005 for the Pine Ridge complex. The agreement also provided for the NAU's lease purchase agreement of the McKay Village complex for $22.685 million in fiscal year 2007. Upon expiration of the lease, the real property will become the sole property of the NAU without further cost.

On September 1, 2006, the NAU entered into a lease purchase agreement with NACFFC. During the 30 year lease term, the agreement provides for the NAU lease purchase of the convention center/parking garage complex for $12.400 million in fiscal year 2008. Upon expiration of the lease, the real property will become the sole property of the NAU without further cost.

F. CAPITAL ASSETS

Capital asset activity for the UMC for the fiscal year ended June 30, 2009 was as follows (expressed in thousands):

	University Medical Center				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Non-depreciable capital assets:					
Land	$ 8,008	$ 3,675	$ -	$ 9	$ 11,692
Construction in progress	56,411	73,105	(47)	(26,713)	102,756
Total Non-depreciable Capital Assets	64,419	76,780	(47)	(26,704)	114,448
Depreciable capital assets:					
Buildings	210,562	10,350	-	20,477	241,389
Improvements other than buildings	772	92	-	-	864
Equipment	143,756	8,702	(1,715)	6,227	156,970
Total Depreciable Capital Assets	355,090	19,144	(1,715)	26,704	399,223
Less accumulated depreciation for:					
Buildings	(112,781)	(9,083)	-	-	(121,864)
Improvements other than buildings	(348)	(64)	-	-	(412)
Equipment	(110,086)	(13,305)	1,546	-	(121,845)
Total Accumulated Depreciation	(223,215)	(22,452)	1,546	-	(244,121)
Total Depreciable Capital Assets, Net	131,875	(3,308)	(169)	26,704	155,102
Total UMC Capital Assets, Net	$ 196,294	$ 73,472	$ (216)	$ -	$ 269,550

Capital assets for the Universities-affiliated component units for the fiscal year ended June 30, 2009 include the following (expressed in thousands):

	ASU Foundation	ACFFC	Downtown Phoenix Student Housing
Buildings and improvements	$ 17,396	$ 202,835	$ 112,962
Furniture, fixtures, and equipment	7,516	47,916	10,258
Construction in progress	-	7,748	-
Other property and equipment	-	729	-
Total cost or donated value	24,912	259,228	123,220
Less: Accumulated Depreciation	(4,763)	(35,637)	(2,449)
Total Property and Equipment, Net	$ 20,149	$ 223,591	$ 120,771

G. LONG-TERM OBLIGATIONS

1. Component Units

a. Water Infrastructure Finance Authority

The WIFA's bonds are callable and interest is payable semiannually. The bonds are special obligations of the WIFA payable solely from and secured by the WIFA's assets. The bonds are not obligations, general, specific, or otherwise, of the State or any other political subdivision, thereof, other than the WIFA.

In prior fiscal years, the WIFA refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. The amount outstanding on the refunded bonds for the WIFA at June 30, 2009 totaled $62.995 million.

The $6.372 million deferred amount on retirement of bonds is being amortized over the lives of the defeased bonds on a straight-line basis. The amortization for the year ended June 30, 2009 is $554 thousand. Amortization has been offset against interest expense.

Bond premiums are being amortized over the life of the bonds. The amortization for the year ended June 30, 2009 is $3.196 million. Further, bond issuance costs are amortized over the life of the bond and offset to interest expense. The amortization for the ended June 30, 2009 is $313 thousand.

b. University Medical Center

The UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture). In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property.

The UMC has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds, which totaled $20.067 million at June 30, 2009, are held by the trustee and are reflected as restricted investments held by trustee in the accompanying financial statements. These principally consist of money market investments, collateralized by U.S. government securities.

The bonds or other obligations of the UMC do not constitute general obligations of the Arizona Board of Regents, the U of A, the State, or any political subdivision thereof.

In May 2009, the UMC issued $61.800 million of Hospital Revenue Bonds (Series 2009 Bonds). The Series 2009 Bonds were issued at a discount to yield an effective interest rate of 6.48% and are being used for the construction of the Diamond Children's Medical Center and to finance other capital needs of the UMC. The total debt issuance costs for the Series 2009 Bonds were $890 thousand at June 30, 2009. These costs will be amortized over the term of the Series 2009 Bonds.

c. Arizona Power Authority

In prior years, the APA defeased various issues of bonds by purchasing U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide future debt service until the call dates. As a result, those bonds are considered to be defeased and the liability has been removed from the Hoover Uprating Fund. Accordingly, these trust account assets and related liabilities are not included in the accompanying financial statements.

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2009 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2009
Component Units:				
Water Infrastructure Finance Authority	1995-2008	2010-2029	2.00-5.63%	$ 742,840
University Medical Center	1993-2009	2010-2040	4.82-6.48%	286,890
Arizona Power Authority	2001-2004	2010-2018	5.00-5.25%	45,565

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2009 are as follows (expressed in thousands):

	Annual Debt Service Water Infrastructure Finance Authority		
Fiscal Year	Principal	Interest	Total
2010	$ 29,095	$ 35,327	$ 64,422
2011	31,520	33,995	65,515
2012	39,455	32,386	71,841
2013	37,060	30,575	67,635
2014	38,620	28,747	67,367
2015-2019	214,960	113,022	327,982
2020-2024	233,315	57,551	290,866
2025-2029	118,815	10,662	129,477
Total	$ 742,840	$ 342,265	$ 1,085,105

	Annual Debt Service University Medical Center		
Fiscal Year	Principal	Interest	Total
2010	$ 4,145	$ 13,682	$ 17,827
2011	4,295	15,059	19,354
2012	4,515	14,846	19,361
2013	5,555	14,621	20,176
2014	5,845	14,365	20,210
2015-2019	34,140	67,145	101,285
2020-2024	45,295	57,532	102,827
2025-2029	58,375	44,796	103,171
2030-2034	75,440	28,177	103,617
2035-2039	49,285	8,204	57,489
Total	$ 286,890	$ 278,427	$ 565,317

	Annual Debt Service Arizona Power Authority		
Fiscal Year	Principal	Interest	Total
2010	$ 3,815	$ 2,265	$ 6,080
2011	4,220	2,065	6,285
2012	4,585	1,844	6,429
2013	4,810	1,603	6,413
2014	5,065	1,344	6,409
2015-2019	23,070	2,500	25,570
Total	$ 45,565	$ 11,621	$ 57,186

d. Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations for the component units (expressed in thousands):

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Due Within One Year	Due Thereafter
Water Infrastructure Finance Authority:						
Long-term Debt:						
Revenue bonds	$ 770,260	$ -	$ (27,420)	$ 742,840	$ 29,095	$ 713,745
Revenue bond premium	51,799	-	(3,196)	48,603	-	48,603
Deferred amounts, net	(6,926)	-	554	(6,372)	-	(6,372)
Total Long-term Debt	815,133	-	(30,062)	785,071	29,095	755,976
Other Long-term Liabilities:						
Compensated absences	65	74	(74)	65	65	-
Total Other Long-term Liabilities	65	74	(74)	65	65	-
Total Long-term Obligations	$ 815,198	$ 74	$ (30,136)	$ 785,136	$ 29,160	$ 755,976
University Medical Center:						
Long-term Debt:						
Revenue bonds	$ 229,130	$ 61,800	$ (4,040)	$ 286,890	$ 4,145	$ 282,745
Revenue bond premium and discounts	(1,262)	(1,432)	(208)	(2,902)	-	(2,902)
Total Long-term Debt	227,868	60,368	(4,248)	283,988	4,145	279,843
Other Long-term Liabilities:						
Compensated absences	12,845	9,435	(7,711)	14,569	8,444	6,125
Other	4,044	2,442	(1,793)	4,693	-	4,693
Total Other Long-term Liabilities	16,889	11,877	(9,504)	19,262	8,444	10,818
Total Long-term Obligations	$ 244,757	$ 72,245	$ (13,752)	$ 303,250	$ 12,589	$ 290,661
Arizona Power Authority:						
Long-term Debt:						
Revenue bonds	$ 49,015	$ -	$ (3,450)	$ 45,565	$ 3,815	$ 41,750
Revenue bond premium and discounts	1,774	-	(317)	1,457	-	1,457
Deferred amounts, net	(1,210)	-	216	(994)	-	(994)
Total Long-term Debt	49,579	-	(3,551)	46,028	3,815	42,213
Other Long-term Liabilities:						
Compensated absences	67	54	(50)	71	71	-
Total Other Long-term Liabilities	67	54	(50)	71	71	-
Total Long-term Obligations	$ 49,646	$ 54	$ (3,601)	$ 46,099	$ 3,886	$ 42,213

2. Universities-Affiliated Component Units

A summary of bonds payable as of June 30, 2009 include the following (expressed in thousands):

	Final Maturity	Amount
ASU Foundation:		
Series 2004A Variable Rate Revenue Bonds	2034	$ 22,420
Series 2004B Variable Rate Revenue Bonds	2022	10,360
Series 2003 Lease Revenue Bonds	2034	46,425
Capital Lease	2011	2,147
ACFFC:		
Series 2009 Revenue Bonds	2024	41,240
Series 2009A Lease Revenue Refunding Bonds	2034	22,955
Series 2009B Lease Revenue Refunding Bonds	2022	12,085
Series 2008 Revenue Bonds	2028	16,315
Series 2008 Revenue Refunding Bonds	2039	145,180
Series 2008 Variable Rate Demand Revenue Refunding Bonds	2030	52,620
Series 2005 Tax-Exempt Refunding Bonds	2035	16,005
Series 2003 Revenue Bonds	2035	13,220
Series 2002 Revenue Bonds	2018	24,655
Series 2000 Revenue Bonds	2032	10,080
Unamortized Bond Discount		(2,979)
Downtown Phoenix Student Housing:		
Series 2007A&C Revenue Bonds	2042	119,040
Series 2007B Revenue Bonds	2012	785
Series 2007D Tax-Exempt Revenue Bonds	2042	22,700
Unamortized Bond Discount		(1,259)
NACFFC:		
Series 2008 Refunding Bonds	2033	36,390
North Campus Lease Revenue Serial and Term Bonds	2036	12,170
Unamortized Bond Discount		(38)

Scheduled future maturities of Universities-affiliated component units' bonds payable are as follows (expressed in thousands):

Fiscal Year	ASU Foundation	ACFFC	Downtown Phoenix Student Housing	NACFFC
2010	$ 1,799	$ 4,400	$ -	$ 785
2011	1,875	5,795	600	850
2012	1,988	8,455	655	915
2013	1,755	8,995	430	985
2014	1,835	9,580	610	1,060
Thereafter	72,100	314,151	140,230	43,965
Total	$ 81,352	$ 351,376	$ 142,525	$ 48,560

H. CONDUIT DEBT

During the year ended June 30, 2009, the Greater Arizona Development Authority (GADA) issued $26.725 million of Bonds, Series 2009A for public infrastructure projects in the communities of the Mayer Fire District, Pinal County, and the City of San Luis. During the year ended June 30, 2009, the GADA issued $16.300 million of Bonds, Series 2009B for public infrastructure projects in the communities of the City of El Mirage and the Town of Sahuarita. The GADA's bond structure allows it to lower borrowing costs for Arizona's communities by issuing and selling bonds tax-exempt and by sharing financing costs among several borrowers. Eligible applicants include cities, towns, counties, Indian tribes, and certain special districts. Principal and interest are payable semiannually. Loans are secured by the Pledged Collateral Reserve Fund, a requirement that is calculated and deposited by the GADA from the GADA Fund, which is held by the State Treasurer. Some borrowers also have separate, additional reserve funds, which are held by the Trustee. An intercept mechanism of state-shared revenues for political subdivisions enhances the security of the GADA bonds.

In previous years, the State appropriated a total of $20.000 million to the GADA for the express purpose of securing bonds issued by the GADA. As of June 30, 2009, the remaining balance in the appropriations account was $14.252 million including interest earned. Although issued in the name of the GADA, loans funded through the GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-1554.08, the GADA's bonds do not constitute nor create a general, special, or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State**.** The only exposure to the State is related to the *restricted* net assets of $9.860 million in the Pledged Collateral Reserve Fund. As such, the Series 2009A and 2009B bonds do not constitute a legal debt of the State and are not enforceable against the State. At June 30, 2009, the total outstanding face value of all bonds issued by the GADA was $368.335 million.

I. RELATED PARTY TRANSACTIONS

The UMC and the U of A both provide and receive services from each other under various contracts. Payments to the U of A by the UMC include mission and program support, resident and intern salaries, utilities, ground maintenance, mailroom operations, and various administrative functions. Amounts paid to the U of A for these services were approximately $27.556 million for the year ended June 30, 2009. At June 30, 2009, the amount outstanding for mission support agreements is $4.920 million.

The UMC has entered into contractual agreements with the U of A to provide support for the academic mission of the U of A. Charges to the U of A for such services and facilities provided by the UMC were approximately $9.040 million for the year ended June 30, 2009. This amount is included in sales and charges for services in the accompanying financial statements.

The UMC also has an agreement to provide health care services to members of an AHCCCS health plan owned by University Physicians Healthcare (UPH) called University Family Care (UFC). UFC, an AHCCCS-funded health maintenance organization (HMO), manages approximately 15,000 members. The UMC provides health care services to UFC members in the normal course of business. The UMC operates under a contract with UFC at rates that are substantially the same as rates received from other unaffiliated AHCCCS HMOs. Such rates are generally at or below the maximum rates established by AHCCCS and do not cover the UMC's costs of providing care to UFC members. Sales and charges for services include $20.312 million from this payor, based on negotiated rates.

During fiscal year 2009, AHCCCS committed approximately $28.000 million to the UMC related to the UMC's eligible unreimbursed Indirect Medical Education (IME) costs. Of the $28.000 million, $8.000 million was paid to the UMC in 2009, with the remainder received by the UMC subsequent to year-end. The availability of these funds was made possible due to the UMC's unreimbursed IME costs and facilitated by matching funds made available by the U of A and Pima County. Pursuant to a separate but related agreement, the UMC agreed to pay $21.000 million of the funds to UPH in support of unreimbursed costs of residents and fellows incurred by UPH. At June 30, 2009, a receivable in the amount of $23.000 million is recorded in the accompanying financial statements. At June 30, 2009, accounts payable included $14.500 million due to UPH under this agreement.

J. SUBSEQUENT EVENTS

In July 2009, the WIFA issued $148.785 million of Water Quality Revenue Bonds, Series 2009A and $39.655 million of Water Quality Revenue Refunding Bonds, Series 2009A, due in annual principal installments ranging from $3.000 million to $11.610 million, plus semi-annual interest ranging from 2.00% to 5.00% through October 1, 2029.

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GREAT SEAL OF THE STATE OF ARIZONA

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
GENERAL FUND			
General Accounting Office			
Assistant Attorney General Salary Adjustments	$ 982,800	$ 100	$ 0
Capital Outlay - Navajo	500,000	500,000	500,000
Equalization Aid - Cochise	5,833,400	5,833,400	5,833,400
Equalization Aid - Graham	14,775,700	14,775,700	14,775,700
Equalization Aid - Navajo	5,386,500	5,386,500	5,386,500
Equalization Aid - Yuma La Paz	1,931,400	1,931,400	1,931,400
General Relief	0	255,778	253,989
Health Insurance Adjustments	2,291,500	2,600	0
HR Pro Rata Adjustments	38,400	100	0
IT Planning Adjustments	375,000	0	0
LP and PLTO Adjustments	274,000	0	0
Nursing Education Demonstration Project	0	4,000,000	4,000,000
Operating State Aid - Cochise	8,303,100	7,660,604	7,660,604
Operating State Aid - Coconino	3,245,400	2,994,270	2,994,270
Operating State Aid - Gila	713,000	657,828	657,828
Operating State Aid - Graham	5,173,200	4,772,897	4,772,897
Operating State Aid - Maricopa	55,416,100	51,127,990	51,127,990
Operating State Aid - Mohave	4,063,300	3,748,881	3,748,881
Operating State Aid - Navajo	4,250,300	3,921,411	3,921,411
Operating State Aid - Pima	18,874,100	17,413,618	17,413,618
Operating State Aid - Pinal	5,854,300	5,401,293	5,401,293
Operating State Aid - Yavapai	4,903,400	4,523,974	4,523,974
Operating State Aid - Yuma La Paz	5,512,600	5,086,034	5,086,034
Rent Adjustments	1,574,000	6,600	0
Rent Adjustments	1,060,000	2,100	0
Retirement Adjustments	1,025,500	900	0
Retirement Adjustments	9,033,400	301,800	0
Risk Management Adjustments	292,000	0	0
Salary Adjustments	6,584,200	6,100	0
Telecommunications Adjustments	913,800	0	0
Woolsey Flood District	38,614	38,614	38,614
Department of Administration			
Administrative Adjustments	0	162,749	162,749
Administrative Adjustments	0	417,160	417,160
Administrative Adjustments	0	84,926	84,926
Administrative Adjustments	0	178,774	178,774
Arizona Financial Information System	1,115,200	1,120,500	1,059,362
Building Renewal FY00 - 01	10,186	10,186	0
Building Renewal FY05 - 06	37,876	37,876	33,162
Building Renewal FY06 - 07	204,357	189,330	136,089
Building Renewal FY06 - 07	1,432,221	1,432,221	1,395,315
Building Renewal FY07 - 08	4,809,988	4,537,366	3,324,525
Building Renewal FY08 - 09	6,100,000	882,300	689,084
Capital Mall Fire System Replace NEBT	491,000	491,000	69
Cash Transfer To General Fund	0	2,980,000	2,980,000
Cash Transfer To General Fund	0	1,356,300	1,356,300
Cash Transfer To General Fund	0	131,100	131,100
Cash Transfer To General Fund	0	249,200	249,200
Cash Transfer To General Fund	0	14,614,800	14,614,800
Classification Pilot Program	122,454	122,454	0
County Attorney's Immigration Enforcement	2,430,000	2,430,000	2,430,000
DJC HVAC and Electrical Renovations	575,009	575,009	385,257
ENSCO	2,867,300	2,867,300	2,867,300
HB1464 Personnel Reform	273,045	273,045	0

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
HRIS Certificate Of Participation	4,354,000	4,354,000	4,354,000
Old Health Laboratory Renovation	1,207,000	0	0
Operating Lump Sum Appropriation	19,181,100	12,384,535	12,373,867
Operating Lump Sum Appropriation	5,650,100	5,590,700	4,009,867
Operating Lump Sum Appropriation	14,198,400	14,064,000	12,003,919
Operating Lump Sum Appropriation	1,272,300	1,263,000	1,051,173
Operating Lump Sum Appropriation - COSF	5,200,700	5,200,700	3,914,606
Operating Lump Sum Operating - Federal Surplus	444,300	444,300	112,283
PLTO 1 Backfill Agency Relocations FY01 - 02	4	4	0
PLTO 1 Backfill Agency Relocations FY02 - 03	243,490	243,490	0
PLTO 1 Backfill Space Renovations	106,402	106,402	0
PLTO 1 Backfill Space Renovations FY01 - 02	847	847	0
PLTO 1 Backfill Space Renovations FY02 - 03	348,161	348,161	0
PLTO 1 Project Management FY01 - 02	1	1	0
PLTO 1 Project Management FY02 - 03	55,659	55,659	0
PLTO 1 Project Management FY03 - 04	144,694	144,694	0
Prison Cell Locks/Door Replacement GF FY06 - 07	4,218,563	4,218,563	4,130,541
Prison Cell Locks/Door Replacement GF FY07 - 08	1,925,132	(1,274,868)	(1,274,868)
Relocation FY00 - 01	60,000	60,000	0
Relocation FY01 - 02	59,026	59,026	0
Relocation FY06 - 07	33,383	33,383	3,350
Relocation FY07 - 08	59,851	59,851	0
Relocation FY08 - 09	60,000	60,000	0
Relocation FY99 - 00	46,526	46,526	0
State Boards Lump Sum Appropriation	260,000	284,700	284,495
State Boards Lump Sum Appropriation FY07 - 08	20,686	20,686	20,686
State Surplus Property Sales Proceeds	3,000,000	3,000,000	1,152,257
SW Telecommunications Mgt Contract Lease	851,800	851,800	809,477
Treasurer's Warrant Notes Interest	0	50,576	50,576
Utilities	625,700	625,700	625,700
Utilities	7,349,900	7,349,900	7,027,710
Radiation Regulatory Agency			
Administrative Adjustments	0	1,233	1,233
Cash Transfer To General Fund	0	4,300	4,300
General Fund Transfer to NEMF SB 1037	0	612,548	612,500
Operating Lump Sum Appropriation	1,628,200	991,200	990,671
Service Fees Increase	0	400,000	349,292
Office of Equal Opportunity			
Operating Lump Sum Appropriation	245,200	249,300	216,766
Attorney General			
Administrative Adjustments	0	62,995	62,995
Administrative Adjustments	0	168,173	168,173
Cash Transfer To General Fund	159,300	159,300	159,300
Crane Elementary School Case	20,989	20,989	0
Legal Arizona Workers Act	96,003	96,003	(3,997)
Military Installation/Planning	0	100,000	74,475
Military Installation/Planning FY05 - 06	2	2	0
Military Installation/Planning FY07 - 08	32,367	32,367	32,367
Operating Lump Sum Appropriation	21,122,900	21,328,400	21,229,747
Operating Lump Sum Appropriation	12,329,300	13,378,800	12,364,418
State Grand Jury	160,000	179,000	178,821
Department of Agriculture			
Administrative Adjustments	0	23,325	23,325
Agricultural Employment Relations Board	23,300	23,300	23,300
Animal Damage Control	65,000	65,000	65,000
Operating Lump Sum Appropriation	12,006,000	10,056,300	10,049,835

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Red Imported Fire Ant	23,200	23,200	23,200
Arizona State University			
Biomedical Informatics	3,051,800	2,575,721	2,575,721
Downtown Phoenix Campus	35,153,600	26,033,709	26,033,709
Operating Lump Sum Appropriation - Main	363,698,700	266,746,636	266,746,636
Operating Lump Sum Appropriation-East	31,092,300	22,821,693	22,821,693
Operating Lump Sum Appropriation-West	56,796,300	41,233,184	41,233,184
Research Infrastructure Lapp-Polytechnic	0	773,948	773,948
Research Infrastructure Lease-Purch Pymt	0	11,440,429	11,440,429
Auditor General			
Operating Lump Sum Appropriation	17,891,900	15,179,400	14,902,528
Operating Lump Sum Appropriation FY02-03	293,330	0	0
Operating Lump Sum Appropriation FY03-04	375,518	0	0
Operating Lump Sum Appropriation FY04-05	405,827	0	0
Operating Lump Sum Appropriation FY05-06	584,183	187,317	187,317
Operating Lump Sum Appropriation FY06-07	2,083,792	1,858,555	1,858,555
Operating Lump Sum Appropriation FY07-08	403,114	190,892	4
Procurement Study	291,000	0	0
Department of Financial Institutions			
Administrative Adjustments	0	209	209
Operating Lump Sum Appropriation	3,806,800	3,304,900	3,304,393
State Board of Nursing			
CNA Fingerprinting	166,000	97,600	97,589
Arizona Board of Regents			
Administrative Adjustments	0	2,207,082	2,207,082
Arizona Teachers Incentive Program	90,000	90,000	90,000
AZ Transfer Articulation Support System	213,700	213,700	213,700
Math and Science Teacher Initiative	2,250,000	364,400	364,400
Operating Lump Sum Appropriation	2,404,100	2,344,100	(1,694,796)
Student Financial Assistance	10,041,200	10,041,200	10,041,200
Western Interstate Commission Office	116,000	120,000	120,000
Wiche Student Subsidies	4,115,000	3,982,600	3,894,406
Cosmetology Board			
Operating Lump Sum Appropriation	300,000	300,000	293,392
Corporation Commission			
Administrative Adjustments	0	714	714
Cash Transfer To General Fund	0	500	500
Operating Lump Sum Appropriation	5,542,500	4,216,100	4,213,034
Operating Lump Sum Appropriation	48,300	51,100	51,036
Railroad Warning Systems	47,510	47,510	0
Court of Appeals Division I			
Operating Lump Sum Appropriation - Div I	9,657,700	9,599,800	9,588,572
State Board for Charter Schools			
Administrative Adjustments	0	298,408	298,408
Operating Lump Sum Appropriation	1,051,000	723,200	699,941
Court of Appeals Division II			
Administrative Adjustments	0	1,278	1,278
Operating Lum Sum-Division II	4,296,100	4,275,000	4,273,688
Department of Corrections			
Administrative Adjustments	0	5,681,894	5,681,894
All Other Operating Expenditures	0	90,790	(299)
All Other PS and ERE (ERE)	30,026,326	28,191,568	28,175,585
All Other PS and ERE (ERE)	127,154	125,550	59,184
All Other PS and ERE (PS)	71,491,254	65,945,034	65,621,777
All Other PS and ERE (PS)	302,746	298,450	171,851
Cash Transfer To General Fund	0	339,600	339,600

The Notes to Required Supplementary Information are an integral part of this schedule.

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BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Cash Transfer To General Fund	0	21,100	21,100
Correctional Officer PS and ERE (ERE)	118,521,149	133,475,390	133,475,380
Correctional Officer PS and ERE (PS)	289,665,963	299,299,963	299,171,616
County Jail Beds	866,200	806,600	775,170
Electronic Monitoring Of Sex Offenders	0	96,225	96,225
Health Care All Other Operating Exp	76,175,400	77,925,400	74,311,842
Health Care All Other Operating Exp FY06 - 07	0	0	(8,958)
Health Care PS and ERE (ERE)	11,983,808	13,604,545	13,595,172
Health Care PS and ERE (PS)	37,449,400	39,350,000	39,265,215
Non-Health Care All Other Operating Exp	180,000	180,000	177,555
Non-Health Care All Other Operating Exp	119,035,300	122,540,400	120,012,009
Non-Health Care All Other Operating Exp FY06 - 07	0	0	(5,219)
Overtime Compensatory Time	24,331,400	9,858,700	9,739,069
Private Prison Per Diem	52,478,300	53,058,900	53,058,476
Provisional Beds	113,179,700	81,567,600	79,129,649
Department of Economic Security			
ADM Attorney General Legal Services	755,700	667,100	667,100
ADM Attorney General Legal Services	167,900	168,000	129,656
ADM Attorney General Legal Services	17,300	17,300	12,756
ADM Finger Imaging	461,400	161,300	160,940
ADM Finger Imaging	277,500	127,500	47,951
ADM High Performance Bonus	21,489	21,489	0
ADM Operating Lump Sum Appropriation	34,119,400	26,082,600	26,082,600
ADM Operating Lump Sum Appropriation	6,565,500	3,137,100	2,746,729
ADM Operating Lump Sum Appropriation	1,147,600	823,700	370,559
ADM Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	1,000,000
ADM WIA Operating Lump Sum	0	225,000	0
Administration Federal Reed Act Grant 4050	259,200	259,200	0
Administration Tri-agency Disaster Recovery	271,500	0	0
Administrative Adjustments	0	7,542,254	7,542,254
Administrative Adjustments	0	6,857,125	6,857,125
Administrative Adjustments	0	31,951,091	31,951,091
Administrative Adjustments	0	22,242,375	22,242,375
Administrative Adjustments	0	1,000,000	1,000,000
Administrative Adjustments	0	7,602,426	7,602,426
Cash Transfer To General Fund	0	8,306,100	8,306,100
Cash Transfer To General Fund	0	334,700	334,700
DACS Adult Services	19,277,700	16,916,500	15,652,893
DACS Community And Emergency Services	5,424,900	4,788,400	3,564,684
DACS Coordinated Homeless Program	1,155,400	873,100	861,650
DACS Coordinated Homeless Program	1,649,500	1,649,500	1,432,305
DACS Coordinated Hunger Program	1,514,600	1,347,000	1,236,049
DACS Coordinated Hunger Program	500,000	500,000	473,103
DACS Domestic Violence Prevention	8,326,700	5,409,500	5,277,138
DACS Domestic Violence Prevention	6,620,700	6,620,700	5,920,405
DACS Lifespan Respite Care	500,000	150,000	150,000
DACS Lifespan Respite Care Program	198,762	198,762	170,213
DACS Marriage and Communication Skills	20,983	20,983	0
DACS Marriage Handbook	540	540	0
DACS Marriage Skills Training	9,301	9,301	0
DACS Navajo Nation Multipurpose Center	1,000,000	1,000,000	1,000,000
DACS Navajo Nation Multipurpose Facility FY06 - 07	450,000	450,000	59,367
DACS Navajo Nation Senior Centers	45,000	45,000	0
DACS Navajo Senior Center	144,759	144,759	98,848
DACS Navajo Senior Centers-Birdsprings	65,000	65,000	0
DACS Navajo Senior Centers-Dilcon	30,000	30,000	30,000

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DACS Navajo Senior Centers-White Cone	30,000	30,000	11,810
DACS Operating Lump Sum Appropriation	6,822,400	3,978,100	3,978,100
DACS Operating Lump Sum TANF	247,500	247,600	188,617
DACS Risk Management	0	271,500	0
DACS Serving Homeless Excess FY06 - 07	998	998	998
DACS Serving Homeless Excess FY07 - 08	7	7	7
DACS TANF Short-Term Crisis Services	2	2	0
DACS Tribal Senior Centers - Navajo	46,351	46,351	0
Day Care Subsidy	64,285,800	89,785,800	82,271,257
Day Care Subsidy Care TANF	15,083,100	47,979,900	28,265,996
DBME DTA-Document Management	494,600	74,100	74,100
DBME Eligibility System Upgrade (ASRP)	963,300	134,500	103,300
DBME Eligibility System Upgrade (ASRP)	5,468,000	0	0
DBME General Assistance	2,060,800	1,544,000	1,514,099
DBME Operating Lump Sum Appropriation	23,851,900	26,112,600	24,220,300
DBME Operating Lump Sum Appropriation	14,934,800	13,824,500	13,391,425
DBME TANF Cash Benefits	45,850,800	50,590,500	49,754,111
DBME TANF Cash Benefits	79,297,200	65,297,200	64,297,200
DBME Tribal Pass-Thru Funding	4,288,700	5,003,100	4,875,853
DBME Tuberculosis Control	32,200	8,200	7,030
DCFS Intensive Family Services	1,985,600	1,489,200	1,489,200
DCSE Attorney General Legal Services	12,221,700	11,394,100	11,394,100
DCSE Attorney General Legal Services	52,200	52,200	39,190
DCSE County Participation	6,845,200	8,645,200	7,262,730
DCSE Genetic Testing	122,400	32,400	32,400
DCSE Genetic Testing	360,000	360,000	124,170
DCSE Operating Lump Sum Appropriation	8,087,000	6,931,400	6,891,400
DCSE Operating Lump Sum Appropriation	48,729,300	50,009,800	38,614,818
DCYF Adopt Services Family Preservation FY06	1,000,000	1,000,000	0
DCYF Adoption Services (DCFS)	35,942,200	35,942,200	35,942,200
DCYF Adoption Services Family Preservation Project	700,000	500,000	448,087
DCYF Adoption Services TANF	19,302,400	19,302,400	19,302,400
DCYF Attorney General Legal Services	910,600	711,600	711,600
DCYF Attorney General Legal Services	9,922,500	9,924,800	7,748,135
DCYF Child Support Services TANF - SSBG	5,371,700	5,371,700	2,510,909
DCYF Children Support Svcs - GF	45,403,300	39,500,000	33,142,925
DCYF Children Support Svcs - TANF	24,557,400	24,557,400	24,022,044
DCYF Comprehensive Med and Dental (DCFS)	2,057,000	1,757,000	1,757,000
DCYF CPS Appeals	732,900	732,300	732,300
DCYF Education and Training Vouchers	700,000	200,000	200,000
DCYF Emergency Placement - GF	2,180,100	3,680,100	2,180,100
DCYF Emergency Placement - TANF	672,700	672,700	659,439
DCYF Emergency Placement TANF - SSBG	2,333,700	2,333,700	2,333,700
DCYF Family Builders TANF (DCYJ)	5,200,000	3,200,000	3,192,378
DCYF Foster Care Placement - GF	17,139,500	18,337,200	16,562,505
DCYF Foster Care Placement - TANF	1,148,700	1,148,700	1,115,670
DCYF Foster Care Placement TANF - SSBG	5,074,400	5,074,400	5,074,400
DCYF Healthy Families	5,715,800	0	0
DCYF Healthy Families (TANF)	5,034,200	0	0
DCYF Homeless Youth Intervention	400,000	266,700	266,700
DCYF Independent Living Maintenance	3,136,000	3,136,000	3,136,000
DCYF Joint Sub Abuse Treat-GF	5,224,500	4,462,000	3,992,796
DCYF Operating Lump Sum Appropriation	61,447,000	56,605,000	56,605,000
DCYF Operating Lump Sum Appropriation	36,546,100	40,112,300	38,111,835
DCYF Permanent Guard Subsidy	1,743,000	1,743,000	1,743,000
DCYF Permanent Guardianship Subsidy	7,192,300	6,122,300	6,003,704

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DCYF Resident Placement TANF - SSBG	9,833,300	9,833,300	9,276,731
DCYF Residential Placement - GF	6,543,400	7,743,400	5,943,400
DCYF Residential Placement - TANF	1,333,300	1,333,300	1,278,227
DCYF Substance Abuse Treatment (TANF)	2,000,000	2,000,000	1,834,546
DDD Arizona Early Intervention Program	3,500,000	1,843,700	1,843,700
DDD Arizona Training Program At Coolidge	572,400	96,400	95,594
DDD Case Management	4,537,600	3,947,000	3,947,000
DDD Children's Autism Intensive Behavior	1,800,000	1,800,000	1,350,000
DDD Children's Autism Intensive-Toddlers	500,000	500,000	500,000
DDD Home and Communication Based System	848,100	848,100	500,000
DDD Home and Community Based Services	35,873,900	29,267,800	27,202,146
DDD Institutional Services	294,900	204,900	139,375
DDD Operating Lump Sum Appropriation	16,680,500	16,402,800	16,402,800
DDD State Funded LTC Services	762,900	1,762,900	837,500
DDD State Funded LTC Services	25,620,300	25,620,400	24,993,159
DERS CCCA Sliding Fee Scales TANF	2,423,734	2,423,734	0
DERS Daycare Subsidy	82,920,100	33,023,300	21,014,877
DERS Fed Reed Act Grant 4050	3,236,500	3,236,500	0
DERS Independent Living Rehabilitation Svcs	784,200	743,200	720,872
DERS JOBS	2,000,000	2,000,000	2,000,000
DERS JOBS	1,825,200	0	0
DERS JOBS	18,246,500	13,973,700	12,475,381
DERS Operating Lump Sum Appropriation	9,847,000	8,533,800	7,902,200
DERS Operating Lump Sum Appropriation	5,897,400	5,900,200	5,900,200
DERS Operating Lump Sum Appropriation	10,508,800	10,839,200	9,162,755
DERS Summer Youth Employment	750,000	750,000	750,000
DERS Transitional Child Care	36,193,000	28,893,000	26,755,373
DERS Vocational Rehabilitation Services	4,714,400	3,467,800	3,467,800
DERS WIA Discretionary	3,614,000	3,614,000	2,585,793
DERS WIA Operating Lump Sum	2,282,600	2,058,700	0
DERS Workforce Investment Act Programs	48,040,600	48,040,600	36,080,643
LTC Arizona Training Program At Coolidge	17,083,200	18,017,000	14,933,491
LTC AZ Training Program Coolidge	5,829,200	5,643,600	5,643,600
LTC Case Management	14,546,700	13,769,700	13,769,700
LTC Case Management	42,630,900	37,640,600	31,600,292
LTC Home and Community Based Services	207,298,400	159,947,012	159,927,679
LTC Home and Community Based Services	608,905,600	702,251,688	585,861,680
LTC Institutional Services	5,174,600	5,072,800	5,072,800
LTC Institutional Services	15,164,800	20,235,700	17,617,938
LTC Medical Services	46,100,700	45,398,500	45,398,500
LTC Medical Services	135,103,500	119,104,100	108,625,234
LTC Medicare Clawback Payments	2,206,600	2,206,600	2,206,600
LTC Operating Lump Sum Appropriation	40,744,800	41,298,800	31,784,045
Department of Juvenile Corrections			
Administrative Adjustments	0	574,699	574,699
Cash Transfer To General Fund	0	99,700	99,700
Operating Lump Sum Appropriation	2,682,500	2,684,800	2,423,787
Operating Lump Sum Appropriation	74,057,900	72,200,400	71,828,983
Department of Transportation			
Lump Sum Appropriation-Hwys	84,600	72,500	69,734
Department of Education			
Achievement Testing	7,905,900	7,883,571	7,883,571
Additional State Aid To Schools	404,880,500	320,065,516	295,940,789
Administrative Adjustments	0	48,474,168	48,474,168
Adult Education Assistance	4,477,900	4,241,098	4,241,098
AIMS Intervention; Dropout Prevention	5,550,000	5,550,000	5,499,188

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Basic State Aid Deferred Payment FY08	0	272,000,000	272,000,000
Basic State Aid Entitlement	3,296,549,500	2,947,520,184	2,945,863,923
Basic State Aid Reduced Apportion Costs	0	627,700	0
Cash Transfer To General Fund	0	78,700	78,700
Cash Transfer To General Fund	23,200	23,200	23,200
Chemical Abuse	826,300	764,257	642,637
Compensatory Instruction Fund Deposit	10,000,000	10,000,000	5,350,514
Employee Discipline and Risk Mgmt Techniques	2	2	0
English Language Acquisition FY06 - 07	3,264,162	1,798,611	1,005,035
English Language Acquisition FY08 - 09	5,025,500	4,731,916	4,731,916
English Language Instruction FY08 - 09	0	41,300,133	41,300,133
English Learner Classroom Bonus Fund FY02-03	1,017	(8,000)	(8,000)
English Learner Classroom Bonus Fund FY03-04	0	(135,737)	(135,737)
English Learner Classroom Bonus Fund FY04-05	0	(248,719)	(248,719)
English Learner Instruction FY04 - 05	0	(11,834)	(12,659)
English Learner Material	0	(24,159)	(25,963)
English Learner Teacher FY02 - 03	0	(31,694)	(57,025)
English Learner Teacher FY03 - 04	0	(215,907)	(215,907)
English Learner Teacher FY04 - 05	3,443,972	2,161,663	1,699,863
Extended School Year	500,000	500,000	500,000
Family Literacy	1,011,300	971,038	971,038
Gifted Support	3,385,300	3,109,808	3,055,887
Math and Science Initiatives	2,500,000	633,513	630,708
Math and Science Initiatives FY07 - 08	0	1,869,293	1,869,293
Non-Formula Programs-Operating '09	217,700	217,700	217,700
Non-Formula Programs-Operating '09	1,548,400	858,627	858,627
Operating Lump Sum - Administration	6,705,300	6,135,255	6,135,255
Operating Lump Sum - Formula Programs	2,198,700	6,993,580	5,318,614
Operating Lump Sum Appropriation	692,500	418,281	418,281
Operating Lump Sum Appropriation	383,600	383,700	383,700
Optional Performance Incentive Programs	120,000	0	0
Other State Aid To Districts '07	983,900	983,900	772,529
Parental Choice For Reading Success	1,000,000	0	0
Reading First Initiative	0	0	(90,460)
School Accountability	39,400	39,400	39,400
School Safety Program	6,728,300	6,285,539	6,176,354
School Safety Program FY06 - 07	7,828	7,828	7,828
School Safety Program FY07 - 08	624,721	624,721	624,721
Small Pass-Through Programs	681,600	556,400	556,400
Special Education Fund	35,237,700	40,237,700	40,237,700
State Block Grant For Early Childhood Education	19,457,100	18,337,530	18,337,530
State Block Grant For Vocational Education	11,467,200	11,397,299	11,397,299
Statewide Compensatory Instruction Fund	0	(980,465)	(980,465)
Teacher Certification	1,994,000	1,971,400	1,869,500
Vocational Education Extended Year	600,000	190,879	190,879
Department of Commerce			
Administrative Adjustments	0	26,218	26,218
Agriculture Preservation District	26,747	26,747	0
Apprenticeship Services Office	179,200	156,600	155,940
Arizona 21st Century Competitive Initiative Fund	0	22,500,000	22,500,000
Cash Transfer To General Fund	0	1,144,000	1,144,000
Cash Transfer To General Fund	0	25,736,047	25,736,047
Commerce And Econ Development Commission	14,812,002	14,812,002	13,945,880
Greater Arizona Development Authority	2,000,000	0	0
International Trade Offices	1,328,000	487,800	442,377
Military Base Economic Research Study	50,000	50,000	0

The Notes to Required Supplementary Information are an integral part of this schedule.

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Military Installation GF Transfer	0	25,000	25,000
Military Installation Operating	0	56,300	55,487
Military Installation Operating FY05 - 06	6,172	6,172	0
Military Installation Operating FY06 - 07	5,114	5,114	0
Military Installation Operating FY07 - 08	6,820	6,820	0
Motion Picture Development	337,700	0	0
Motion Picture Prod Tax Incentive Admin	0	337,700	304,329
Operating Lump Sum Appropriation	4,021,400	2,952,200	2,829,554
Operating Lump Sum Appropriation	139,500	144,700	137,286
Rural Economic Development	323,900	202,100	200,032
State Board of Equalization			
Operating Lump Sum Appropriation	653,500	602,500	602,450
Department of Environmental Quality			
Administrative Adjustments	0	156,744	156,744
Aquifer Protection Permit Program	788,700	788,700	787,513
Cash Transfer To General Fund	0	5,687,800	5,687,800
Counties Travel Deduction Plan	1,676,900	176,900	176,900
Drinking Water Revolving Loan Program	893,200	0	0
Indirect Cost Recovery Fund Supplemental	2,000,000	2,000,000	1,828,101
Operating Lump Sum Appropriation	10,531,000	10,748,200	352,484
Operating Lump Sum Appropriation	12,400,600	5,720,600	5,709,038
Relief Bill Cash Transfer FY09	0	6,922	6,922
Water Infrastructure Finance Authority	1,551,900	0	0
Game and Fish Department			
Cash Transfer To General Fund	0	145,000	144,218
Arizona Geological Survey			
Earth Fissure Maps	178	178	178
Operating Lump Sum Appropriation	1,073,900	962,800	961,595
Government Information Technology Agency			
2-1-1 System	1,175,200	425,100	425,100
Administrative Adjustments	0	497,628	497,628
Administrative Adjustments	0	5,109	5,109
Cash Transfer To General Fund	0	629,000	629,000
Cash Transfer To General Fund	0	633,600	633,600
E-Health Initiative	1,500,000	0	0
Operating Lump Sum Appropriation	5,000,000	5,000,000	645,525
Operating Lump Sum Appropriation	2,758,600	2,815,100	2,295,964
PS Comm Systems - Interoperability	0	358,501	0
Public Safety Communications Program	880,600	803,400	639,486
SW Information Security and Privacy Office	870,300	870,300	676,860
Governor's Office			
Administrative Adjustments	0	39	39
Emergency Fund	0	2,604,509	0
Emergency Fund FY07 - 08	0	1,450,024	0
Operating Lump Sum Appropriation	7,134,800	7,384,900	6,319,767
Operating Lump Sum Appropriation FY06 - 07	481,703	14,766	8,153
Operating Lump Sum Appropriation FY07 - 08	653,404	552,741	422,416
Operating Lump Sum Appropriation-OSPB	2,209,900	2,149,600	2,147,288
Arizona Health Care Cost Containment System			
Administrative Adjustments	0	52,019,049	52,019,049
Administrative Adjustments	0	61,648,938	61,648,938
Administrative Adjustments	0	10,340,983	10,340,983
Breast and Cervical Cancer	1,164,500	764,500	695,388
Breast and Cervical Cancer	365,500	220,390	218,086
Capitation	608,625,400	486,580,150	486,469,297
Capitation	1,443,017,300	1,478,842,300	1,464,054,537

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Cash Transfer To General Fund	0	1,963,300	1,963,300
Cash Transfer To General Fund	0	17,830,500	17,830,500
CHIP - Parents	8,336,300	5,925,545	5,925,545
CHIP - Services	32,996,800	25,907,000	25,907,000
Critical Access Hospitals	580,100	458,782	425,202
Critical Access Hospitals	1,119,900	1,119,900	1,117,718
DES Eligibility	26,466,700	29,167,600	26,467,600
DES Eligibility	29,220,700	29,220,700	24,522,022
DES Eligibility System Upgrade	1,300,000	137,431	127,431
DES Eligibility System Upgrade	1,300,000	1,300,000	93,077
DES Title XIX Pass Through	154,000	151,400	120,915
DES Title XIX Pass Through	203,800	203,800	138,505
Disproportionate Share Payments	8,922,200	8,950,358	0
Disproportionate Share Payments	21,427,800	21,399,643	4,202,300
DOA Data Center Charges	1,724,700	2,528,200	2,292,617
DOA Data Center Charges	3,992,800	6,106,000	5,532,472
Dual Eligible Part D Copay Subsidy/Acute	1,029,700	2,151,000	2,150,993
Dual Eligible Part D Copay Subsidy-LTC	470,300	588,527	588,527
Fee For Service	108,552,200	93,060,990	92,910,854
Fee For Service	464,843,500	419,843,500	418,823,185
Graduate Medical Education	15,323,100	11,222,059	0
Graduate Medical Education	29,583,100	32,696,200	0
Healthcare Group Admin	5,000,000	2,800,000	2,800,000
Indian Advisory Council	116,600	116,600	108,590
Indian Advisory Council	116,300	116,300	107,032
KidsCare Administration	2,226,200	2,341,900	2,300,369
Long Term Care Board Of Nursing	104,800	104,800	104,800
Long Term Care Board Of Nursing	104,900	104,900	104,800
Medical Clawback Payments - Acute Care	28,844,600	28,794,940	28,794,408
Medical Clawback Payments - LTC	11,307,200	11,307,200	11,307,200
Medical Clawback Payments - LTC	9,433,700	9,433,700	9,399,312
Medicare Premiums	29,022,700	22,881,077	22,874,508
Medicare Premiums	67,252,600	67,677,600	67,630,962
Mental Health - Adults	45,368	45,368	0
New and Expanded Graduate Medical Education Program	958,535	958,535	0
New and Expanded Graduate Medical Education Program	4,494,824	4,494,824	0
Office Of Administrative Hearings	271,300	271,300	217,750
Operating Lump Sum Appropriation	28,585,800	26,478,500	26,017,102
Operating Lump Sum Appropriation	104,355,200	121,151,300	121,151,300
Operating Lump Sum Appropriation	41,521,800	36,808,600	34,592,869
Operating Lump Sum Appropriation	0	29	0
Operating Lump Sum Appropriation	1,023,680,200	1,031,680,200	983,799,874
Operating Lump Sum Appropriation	45,793,300	45,793,300	0
Prop 204 - Capitation	224,247,700	218,066,648	216,617,616
Prop 204 - Capitation	54,004,600	48,996,700	46,828,921
Prop 204 - Capitation	794,114,800	1,015,585,200	1,015,449,744
Prop 204 - Capitation	114,004,100	114,004,100	114,004,100
Prop 204 - County Hold Harmless	4,825,600	0	0
Prop 204 Fee-For-Service	47,747,000	38,171,399	37,095,859
Prop 204 Fee-For-Service	195,628,100	181,628,100	176,639,932
Prop 204 Medicare	20,629,400	20,629,400	20,568,430
Prop 204 Pass Through Admin	22,050,800	18,299,369	18,265,909
Prop 204 Pass Through Admin	18,737,300	18,737,300	16,703,487
Prop 204 Pass Through Admin	2,841,000	2,841,000	2,130,750
Prop 204-Reinsurance	44,336,200	23,865,744	23,796,596
Prop 204-Reinsurance	85,584,000	49,359,000	49,358,961

The Notes to Required Supplementary Information are an integral part of this schedule.

(Continued)

BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
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(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Prop 204 Admin Operation 100% Fall Expansion	5,723,600	4,511,700	4,431,979
Prop 204 Admin Operation 100% FPL Expansion	5,678,100	5,678,100	5,183,902
Prop 204 Admin Operation 100% FPL Expansion	0	5	0
Reinsurance	45,807,200	25,560,730	25,470,929
Reinsurance	88,395,000	76,109,000	76,108,924
Rural Hospital Reimbursement	4,148,600	3,038,310	0
Rural Hospital Reimbursement	8,009,500	9,119,800	0
Temporary Medical Coverage	3,247,200	3,247,200	3,137,968
Ticket To Work	3,041,500	1,748,516	1,746,365
Ticket To Work	5,871,900	4,290,757	4,263,715
Office of Administrative Hearings			
Operating Lump Sum Appropriation	14,500	14,500	14,500
Operating Lump Sum Appropriation	1,213,900	1,117,900	1,117,900
Arizona Historical Society			
Field Services and Grants	80,000	65,000	65,000
Operating Lump Sum Appropriation	2,339,900	2,073,900	2,073,900
Papago Park Museum	193,700	194,200	194,200
Papago Park Museum	1,978,900	1,878,900	1,878,900
House of Representatives			
Lump Sum Appropriation FY00 - 01	442,195	442,195	442,195
Lump Sum Appropriation FY01 - 02	0	(382,940)	42,373
Lump Sum Appropriation FY02 - 03	0	(842,055)	0
Lump Sum Appropriation FY03 - 04	593,819	0	0
Operating Lump Sum Appropriation	13,854,800	13,653,400	11,989,731
Operating Lump Sum Appropriation FY04-05	1,009,668	0	0
Operating Lump Sum Appropriation FY05-06	1,901,541	730,024	129,478
Operating Lump Sum Appropriation FY06-07	1,997,741	1,997,741	535
Operating Lump Sum Appropriation FY07-08	1,703,087	1,703,087	3,750
Department of Health Services			
ADHS Indirect Costs AHCCCS - CRS	350,000	350,000	350,000
Administrative Adjustments	0	336,185	336,185
Administrative Adjustments	0	3,618,340	3,618,340
Administrative Adjustments	0	28,611	28,611
Adult Cystic Fibrosis	105,200	105,200	105,200
Adult Sickle Cell Anemia	33,000	25,554	25,554
AHCCCS Rehabilitative Services	0	53,462,500	0
AHCCCS-Childrens Rehabilitative Services	32,640,789	27,688,800	22,736,811
AIDS Reporting and Surveillance	1,125,000	1,125,000	1,114,736
Alzheimer Disease Research	3,000,000	1,125,000	1,125,000
Arnold V. Sarn	9,653,100	9,653,100	0
Arnold V. Sarn	27,500,000	26,150,000	25,700,186
ASH Accreditation	3,140	3,140	0
ASH Corrective Action Plan Supplemental	398,060	398,060	0
Assurance and Licensure	950,200	950,200	0
Assurance and Licensure	343,200	340,200	313,957
Assurance and Licensure	9,392,500	8,762,277	8,707,383
Assurance and Licensure	829,200	829,200	797,802
Attorney General Legal Services	394,900	394,900	394,900
AZ Statewide Immunization Info System	517,500	373,062	373,062
Breast and Cervical Cancer Screening	1,348,600	1,015,800	791,137
Cash Transfer To General Fund	1,000,000	1,000,000	1,000,000
Cash Transfer To General Fund	0	36,800	36,800
Cash Transfer To General Fund	0	821,400	134,200
Cash Transfer To General Fund	0	5,803,200	5,803,200
Children BHS-Tobacco Litigation	1	1	1
Children's Behavioral Health Services	9,351,800	8,320,692	8,313,775

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Children's Bh State Match For Title XIX	261,605,206	283,380,513	0
Children's Bh State Match For Title XIX	122,432,700	106,015,237	106,015,237
Children's Rehabilitative Services	3,587,000	2,815,600	2,815,600
Community Health Centers	8,981,300	6,564,686	6,552,989
Community Placement Treatment	5,574,100	3,263,170	3,263,170
Community Placement Treatment	1,130,700	1,130,700	0
Contract Compliance	3,667,400	3,667,400	0
Contract Compliance	1,856,100	1,182,700	1,182,700
County Prenatal Services Grant	1,148,500	783,600	783,600
County Public Health	200,000	0	0
County Tuberculosis Provider Care and Control	1,410,500	968,400	821,241
Court Monitoring	197,500	197,500	197,500
Diabetes Prevention and Control	400,000	63,527	62,964
Direct Grants	460,300	345,225	345,225
Dual Eligible Part D Copay Subsidy	802,600	466,792	466,792
Electronic Medical Records	300,000	168,233	163,506
Hepatitis C Surveillance	409,300	157,210	157,209
High Risk Perinatal Services	4,980,600	3,493,362	3,338,340
Indirect Cost Fund	8,053,000	8,075,700	7,433,663
Kidney Program	50,500	0	0
Laboratory Services	4,087,900	3,786,060	3,717,343
Loan Repayment	100,000	38,570	36,570
Medicaid Special Exemption Payments	615,300	615,300	615,300
Medicaid Special Exemption Payments BHS	13,454,800	14,185,322	0
Medicaid Special Exemption Payments BHS	6,969,100	7,354,100	7,354,100
Medicaid Special Exemption Payments Chas	1,188,100	1,188,100	0
Medicare Clawback Payments	10,718,100	10,718,100	10,718,100
Mental Health - Non-Title XIX	2,447,300	1,947,300	1,947,237
Mental Health and Substance Abuse State Match for Title XIX	36,133,300	31,426,158	31,426,158
Mental Health and Substance Abuse State Match for Title XIX	77,043,283	82,203,173	0
Operating Lump Sum Appropriation	2,181,000	2,181,000	0
Operating Lump Sum Appropriation	1,578,100	1,578,000	1,572,511
Operating Lump Sum Appropriation	5,063,900	5,063,900	0
Operating Lump Sum Appropriation	14,876,300	13,608,930	13,232,195
Operating Lump Sum Appropriation	3,821,700	3,014,202	2,991,682
Operating Lump Sum Appropriation	5,823,200	4,902,075	4,842,651
Operating Lump Sum Appropriation	4,528,800	4,087,021	4,085,839
Operating Lump Sum Appropriation	50,932,100	49,977,563	49,689,278
Operating Lump Sum Appropriation	4,901,900	5,035,200	4,211,357
Operating Lump Sum Appropriation	1,000,000	1,000,000	1,000,000
Poison Control Center Funding	675,000	524,500	506,250
Prop 204 Administration Title XIX Match	4,404,600	4,404,600	0
Prop 204 Administration Title XIX Match	2,130,200	2,130,200	2,130,200
Prop 204 CBHS Title XIX Match	3,203,621	2,597,997	0
Prop 204 CBHS Title XIX Match	1,546,500	1,013,552	1,013,552
Prop 204 GMH/SA Title XIX Match	78,858,332	89,783,294	0
Prop 204 GMH/SA Title XIX Match	36,964,900	35,127,055	35,127,055
Prop 204 SMI Title XIX Match	152,107,898	170,408,751	0
Prop 204 SMI Title XIX Match	71,300,600	66,305,223	66,305,223
Reg Hearing Aid Dispensers, Audiologists, and SL Pathologists	62,243	62,243	0
Reimbursement To Counties	67,900	50,925	50,043
Renal and Non-Renal Disease Management	468,000	198,000	138,707
Scorpion Antivenom	150,000	120,000	120,000
Senior Food Program	600,000	75,045	41,285
Seriously Emotionally Handicapped Child	500,000	0	0
Seriously Mentally Ill Non-Title XIX	30,191,900	25,524,898	25,501,875

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Seriously Mentally Ill St Mch For T-XIX	146,337,459	156,457,649	0
Seriously Mentally Ill St Mch For T-XIX	68,585,400	59,303,976	59,303,976
Sexually Violent Persons	10,628,100	10,178,850	9,798,083
STD Control Subventions	26,300	0	0
Substance Abuse - Non Title XIX	12,135,400	9,635,400	9,635,026
TANF Perinatal Services	47,270	47,270	0
Telemedicine	260,000	208,000	146,902
Teratogen Program	60,000	35,000	0
U of A Poison Control Center Funding	1,275,000	1,025,500	956,250
Vaccines	8,410,400	1,497,571	1,497,571
Vital Records - Archiving, Cust Svc, Ops	16,715	16,715	550
Vital Records Maintenance	502,200	499,700	468,000
Arizona Commission on the Arts			
Community Service Projects	1,463,100	860,800	860,797
Operating Lump Sum Appropriation	625,000	646,800	646,378
Arizona Commission of Indian Affairs			
Administrative Adjustments	0	21,999	21,999
Operating Lump Sum Appropriation	223,300	211,000	208,063
Occupation Safety & Health Board			
Lump Sum Appropriation FY00 - 01	1,000	1,000	0
Lump Sum Appropriation FY02 - 03	4,800	4,800	0
Lump Sum Appropriation FY03 - 04	4,800	4,800	0
Lump Sum Appropriation FY99 - 00	1,000	1,000	0
Operating Lump Sum Appropriation FY04 - 05	4,800	4,800	0
Operating Lump Sum Appropriation FY98 - 99	2,796	2,796	0
Department of Insurance			
Cash Transfer To General Fund	0	38,100	38,100
Cash Transfers Between Agency Funds	0	123,315	123,315
Managed Care and Dental Plan Oversight	601,700	463,451	463,451
Operating Lump Sum Appropriation	6,764,100	5,953,349	5,940,013
Arizona Criminal Justice Commission			
Administrative Adjustments	0	130,724	130,724
Criminal Justice Information Systems	800,000	0	0
Methamphetamine Interdiction	2,000,000	0	0
Operating Lump Sum Appropriation	994,200	747,000	747,000
Rural State Aid To County Attorneys	157,700	157,700	157,700
Rural State Aid To Indigent Defense	150,100	150,100	150,100
Joint Legislative Budget Committee			
Operating Lump Sum Appropriation	2,948,600	2,106,757	874,531
Operating Lump Sum Appropriation FY07-08	2,210,637	1,532,581	1,532,581
Department of Library, Archives, and Public Records			
Cash Transfer To General Fund	0	312,700	312,700
Grants-In-Aid	651,400	630,100	523,403
Grants-In-Aid FY05 - 06	28,708	28,708	28,708
Grants-In-Aid FY06 - 07	78,018	78,018	78,018
Grants-In-Aid FY07 - 08	80,976	80,976	13,158
Historical Advisory Commission	46,683	46,683	5,405
Operating Lump Sum Appropriation	6,787,900	5,593,600	5,593,599
Operating Lump Sum Appropriation	662,500	675,900	626,842
Operating Lump Sum Appropriation FY 01 - 02	2,924	2,924	0
Operating Lump Sum Appropriation FY 03 - 04	4	4	0
Operating Lump Sum Appropriation FY 05 - 06	15	15	0
Operating Lump Sum Appropriation FY 06 - 07	10	10	0
Operating Lump Sum Appropriation FY 07 - 08	79,605	79,605	2,757
Operating Lump Sum Appropriation FY 07 - 08	6,783	6,783	6,783
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
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GENERAL FUND
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Legislative Council			
Arizona Centennial Celebration	2,450,000	2,450,000	0
Juvenile Study	19,520	0	0
Ombudsman-Citizens Aid Office	593,000	573,700	512,160
Ombudsman-Citizens Aid Office FY 93 - 94	43,000	0	0
Ombudsman-Citizens Aid Office FY 94 - 95	95,169	1	0
Ombudsman-Citizens Aid Office FY 07 - 08	127,902	63,951	41,830
Operating Lump Sum Appropriation	4,983,100	4,151,000	4,130,794
Operating Lump Sum Appropriation FY 06-07	661,735	661,735	436,162
Operating Lump Sum Appropriation FY 07-08	101,513	101,513	98,567
Operating Lump Sum Appropriation FY 99-00	886,420	140,359	0
State Archives And History Building FY 05 - 06	545	545	545
State Archives And History Building FY 06 - 07	2,435,141	2,435,141	1,918,178
State Archives And History Building FY 07 - 08	6,000,000	6,000,000	5,162,231
Land Department			
Cap User Fees	1,488,300	311,200	311,127
Due Diligence Fund	500,000	500,000	0
Earth Fissure Maps	182	182	182
Environmental County Grants	250,000	0	0
Fire Suppression Operating Expenses	2,566,600	2,489,900	2,489,900
Inmate Fire Crews	974,300	965,200	965,200
Natural Resource Conservation Districts	430,000	94,600	94,600
Operating Lump Sum Appropriation	17,208,600	13,050,100	13,043,244
Service Fees Increase Fund	0	600,000	600,000
Department of Liquor Licenses and Control			
Improvement of Data Processing System	975,171	975,171	824,405
Operating Lump Sum Appropriation	3,534,100	3,031,800	3,029,786
Law Enforcement Merit System			
Operating Lump Sum Appropriation	74,200	76,900	76,776
Department of Emergency Management & Military Affairs			
2007 Monsoons	0	50,015	37,240
2007 Monsoons FY07 - 08	131,786	131,786	131,786
Administrative Adjustments	0	6,833	6,833
Armory Restroom Renovation-Flag/Nogales	0	145,000	70,160
Aspen Fire Emergency	661,543	661,543	(199,257)
Arizona/Mexico International Border Security	128,666	121,425	121,425
Emergency Management 2-1-1 Services	104,200	31,152	31,152
Euz701 Search	0	310,000	285,786
Euz701 Search and Rescue	428	428	428
Euz701 Search FY07 - 08	9,015	9,015	9,015
February 2005 Winter Storms	675,303	675,303	145,273
February 2005 Winter Storms and Flooding	87,090	87,090	86,400
Glassy-Winged Sharpshooter Emergency FY05 - 06	1,567	1,567	1,567
Glassy-Winged Sharpshooter Emergency FY06 - 07	249,624	73,881	73,881
Guardsmen Tuition Reimbursement	1,446,000	750,000	739,453
Hazard Materials Contingency FY03 - 04	3,820	3,820	(24)
Hazard Materials Contingency FY07 - 08	50,000	50,000	265
January 2008 Severe Precipitation	0	122,500	0
January 2008 Severe Precipitation FY07 - 08	172,635	172,635	27,530
La Paz County Summer Monsoon Emergency	55,244	176	176
La Paz/Maricopa Counties Storm Emergency FY01 - 02	58,871	58,871	1,628
La Paz/Maricopa Counties Storm Emergency FY03 - 04	105,264	105,264	96,024
Military Gift Package Postage	100,000	50,000	50,000
Mitigation Projects 2004 Emergency Funds	81,655	81,655	4,264
Navajo, Gila and Coconino Cts Rodeo Fire	319,102	319,102	(8,179)
Nogales and 52nd Street Bldg Renewal FY01 - 02	12,032	12,032	0

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Nogales Wash Flooding 2007	70,259	1,463	1,463
Nogales Wash Flooding 2008	0	203,681	203,681
Northern Arizona Winter Storm Emergency	0	206,968	59,106
Northern Arizona Winter Storm Emergency FY04 - 05	1,940	1,940	0
Northern Arizona Winter Storm Emergency FY05 - 06	170	170	170
Northern Arizona Winter Storm Emergency FY06 - 07	81,202	81,202	81,176
Northern Arizona Winter Storm Emergency FY07 - 08	166,445	166,445	157,198
Nuclear Emergency Management Fund	0	403,477	403,477
Nuclear Emergency Management Fund Buckeye	0	69,909	69,909
Nuclear Emergency Management Fund Maricopa	0	354,558	354,558
Off Site Nuclear Emergency 89-90	1,708	1,708	0
Operating Lump Sum - Administration	1,848,900	1,636,691	1,631,125
Operating Lump Sum - Military Affairs	1,910,332	1,625,332	1,620,071
Operating Lump Sum-Emergency Management	0	826,068	826,068
Operation Good Neighbor	154,595	154,595	2,079
Project Challenge Construction FY05 - 06	183,494	183,494	183,494
Project Challenge Construction FY06 - 07	500,000	500,000	500,000
Project Challenge Construction FY07 - 08	100,000	100,000	100,000
Project Challenge Program	1,704,800	1,804,800	1,804,793
Replace Cooling Tower at Roosevelt FY05 - 06	50,000	50,000	0
Service Contracts	0	1,215,000	1,215,000
Summer 2006 Monsoons and Flooding FY06 - 07	563,058	563,058	386,508
Summer 2006 Monsoons and Flooding FY07 - 08	732,628	732,628	3,258
Uniform and Equipment Allowances	250,000	134,957	134,957
Mine Inspector			
Abandoned Mine Safety Deposit from GF	182,000	182,000	173,056
Administrative Adjustments	0	7,173	7,173
Operating Lump Sum Appropriation	1,382,800	1,285,500	1,161,281
Department of Building and Fire Safety			
Operating Lump Sum Appropriation	3,764,000	3,128,300	3,112,783
Mines and Mineral Resources			
Administrative Adjustments	0	38,502	38,502
Operating Lump Sum Appropriation	839,900	883,000	881,947
Medical Student Loans Board			
Medical Student Financial Assistance	1,500,000	1,121,000	1,001,000
Medical Student Financial Assistance	0	309,800	0
Medical Student Financial Assistance	154,539	154,539	0
Medical Student Financial Assistance	833,887	833,887	456,183
Medical Student Loans	3,944	3,944	0
Northern Arizona University			
NAU - Yuma	2,489,500	2,074,582	2,074,582
Operating Lump Sum Appropriation	158,979,100	116,374,192	116,374,192
Research Infrastructure Lease-Purch Pymt	0	4,916,666	4,916,666
Teacher Training	2,000,000	1,666,400	1,666,400
Navigable Streams Adjuication Commission			
Administrative Adjustments	0	1,041	1,041
Operating Lump Sum Appropriation	180,000	160,100	124,501
Operational Supplemental	157,513	157,513	157,513
Personnel Board			
Administrative Adjustments	0	67	67
Operating Lump Sum Appropriation	357,900	329,100	328,027
State Capitol Post-Conviction Public Defender			
Administrative Adjustments	0	759	759
Operating Lump Sum Appropriation	721,700	759,000	753,330
Commission for Postsecondary Education			
Case Managers	100,000	0	0

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Leveraging Educational Assistance Prtshp	1,220,800	1,220,800	1,220,800
Postsecondary Education Grant Program	5,300,000	2,750,000	2,749,998
Priv Postsecondary Ed Stu Fin Asst Prog	800,000	398,900	331,600
Prescott Historical Society			
Maintenance and Workshop Facility FY06 - 07	398,231	29,964	29,964
Operating Lump Sum Appropriation	734,000	663,100	625,494
Arizona Pioneers' Home			
All Other Operating Expenditures	828,000	0	0
PS/Employee Related Expenses (ERE)	74,000	0	0
PS/Employee Related Expenses (PS)	334,000	0	0
Board of Executive Clemency			
Operating Lump Sum Appropriation	1,087,400	1,047,600	1,046,904
State Parks Board			
Acquisition and Development	107,100	107,100	0
Administrative Adjustments	0	18,200	18,200
Administrative Adjustments	0	16,263	16,263
Arizona Trail	125,000	125,000	125,000
Cash Transfer to General Fund	0	5,391,800	5,391,800
Kartchner Caverns State Park	2,535,800	2,638,000	2,121,945
Land Conservation Fund-General Fund	0	20,000,000	20,000,000
Operating Lump Sum Appropriation	4,332,500	6,869,720	6,837,108
Operating Lump Sum Appropriation	8,275,000	3,485,200	3,484,375
Tonto Lodge Roof Replacement FY04 - 05	99,498	99,498	0
Department of Public Safety			
Building Renewal - Proj 917051 FY06 - 07	4,569	4,569	0
Building Renewal - Proj 915013 FY04 - 05	2	2	0
Building Renewal - Proj 915014 FY04 - 05	5,802	5,802	5,802
Building Renewal - Proj 915015 FY04 - 05	3,318	3,318	2,934
Building Renewal - Proj 916003 FY05 - 06	217	217	0
Cash Transfer To General Fund	0	50,000	50,000
DPS Carpet Replacement Project-Bldg Renewal	35,389	35,389	35,336
DPS Headquarters Fire Alarm	82,234	82,234	63,731
GITEM	19,799,700	18,902,000	17,398,547
GITEM-County Attorneys For Prosecution	1,000,000	700,000	364,974
GITEM-Gang Intelligence Team Enforcement	0	4,051,900	58,787
GITEM-Gang Intelligence Team Enforcement FY07 - 08	9,711,104	4,483,704	4,468,538
GITEM-State Gang Intelligence Dbase	1,000,000	600,000	385,489
Microwave Communication System	0	1,250,000	50,000
Microwave Communication System FY06 - 07	685,771	685,771	(166,244)
Microwave Communication System FY07 - 08	362,157	362,157	(116,843)
Motor Vehicle Fuel	3,704,200	3,704,200	3,217,711
Operating Lump Sum Appropriation	41,050,500	41,050,500	41,050,500
Operating Lump Sum Appropriation	1,564,100	1,615,600	1,615,600
Operating Lump Sum Appropriation	205,000	205,000	76,616
Operating Lump Sum Appropriation	84,949,500	84,949,500	84,949,500
Operating Lump Sum Appropriation	22,343,500	31,402,600	31,402,600
Operating Lump Sum Appropriation	296,200	296,200	292,820
Patrol Officers - SB1243 Year 2	41,570	41,570	0
Statewide HVACs Replacements	3,791	8,412	8,412
Statewide Interoperability - Phase II	358,501	358,501	0
Sworn Officer Salary Adjustments	1,274,100	1,274,100	1,274,100
Department of Racing			
Administrative Adjustments	0	132	132
Operating Lump Sum Appropriation	2,747,900	2,280,200	2,278,863
Independent Redistricting Commission			
Operating Lump Sum FY03 - 04	931,391	930,491	256,354

The Notes to Required Supplementary Information are an integral part of this schedule.

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Real Estate Department			
Administrative Adjustments	0	6,924	6,924
Operating Lump Sum Appropriation	4,438,500	3,686,700	3,685,317
Rangers' Pension			
Operating Lump Sum Appropriation	13,700	13,700	13,700
Department of Revenue			
Administrative Adjustments	0	53,371	53,371
Administrative Adjustments	0	132	132
BRITS Operations	2,223,700	2,223,700	2,223,313
Cash Transfer To General Fund	0	1,352,600	1,352,600
Cash Transfer To General Fund	0	986,500	986,500
Data Center Charges	0	1,570,000	394,858
Legal Arizona Workers Act - Employer Notice	102	102	0
Operating Lump Sum Appropriation	69,595,500	62,179,500	62,056,187
Operating Lump Sum Appropriation	413,800	422,000	407,646
Tax Credit Administration	0	30,000	30,000
Unclaimed Property Administration	1,608,600	1,634,000	1,401,331
Unclaimed Property Contract Auditor Fees	1,770,000	1,770,000	698,583
Schools for the Deaf and Blind			
Administrative Adjustments	0	1,535,873	1,535,873
Operating Lump Sum - Phoenix	5,160,200	3,671,200	3,231,001
Operating Lump Sum - Preschool/Outreach	3,024,800	2,009,935	1,747,362
Operating Lump Sum - Tucson	10,338,200	10,383,000	9,727,272
Operating Lump Sum-Regional Cooperatives	1,420,100	5,209,565	5,110,155
School Bus Replacement-Phoenix	461,300	0	0
School Bus Replacement-Tucson	276,700	0	0
School Facilities Board			
Building Renewal Grant	20,000,000	20,000,000	20,000,000
Full Day Kindergarten Capital Grants	484,205	484,205	484,205
New School Facilities	0	117,000,000	0
New School Facilities Debt Service	79,268,400	79,151,400	79,151,400
Operating Lump Sum Appropriation	1,944,400	1,614,100	1,611,823
Senate			
Operating Lump Sum Appropriation	9,193,000	8,635,000	7,724,033
Operating Lump Sum Appropriation FY07 - 08	1,651,552	1,651,552	937,520
Supreme Court			
Administrative Adjustments	0	12,516	12,516
Administrative Adjustments	0	9,012	9,012
ADOA Building Renewal Fund	0	140,000	16,459
Adult Intensive Probation	11,338,000	11,086,470	11,025,839
Adult Standard Probation	15,060,600	14,477,530	14,402,069
Automation	7,855,300	7,776,700	7,627,089
Automation	4,565,100	4,539,000	4,311,575
Case And Cash Management System	1,365,600	1,365,600	1,351,607
Case And Cash Management System	151,700	151,700	151,699
Cash Transfer To General Fund	0	1,230,700	1,230,700
Cash Transfer To General Fund	0	222,600	222,600
Commission on Judicial Conduct	436,800	416,600	394,368
Community Punishment	541,300	0	0
County Reimbursements	208,800	187,900	187,900
Court Appointed Special Advocate	102,000	102,000	102,000
Courts Building Design Chiller & Thermal Storage	52,725	52,725	34,535
Domestic Relations	586,400	510,500	507,429
Drug Court FY06 - 07	96,877	96,877	35,555
Drug Court FY08 - 09	1,013,600	1,013,600	996,279
Foster Care Review Board	2,429,800	2,405,000	2,373,773

The Notes to Required Supplementary Information are an integral part of this schedule.

(Continued)

BUDGETARY COMPARISON SCHEDULE, EXPENDITURES

GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Fourth Floor Chiller FY01 - 02	2,528	2,528	0
Global Position and Monitoring System GPS	436,800	435,500	405,054
HVAC Storage Tank FY01 - 02	1,211	1,211	0
Interstate Compact	656,100	650,500	635,501
Judges Compensation	18,136,100	17,556,900	17,556,763
Judicial Nomination and Performance Review	323,200	295,300	283,504
Juvenile Family Counseling	660,400	660,400	640,018
Juvenile Intensive Probation	9,886,100	9,038,954	8,985,984
Juvenile Standard Probation	4,726,000	5,045,446	5,037,165
Juvenile Treatment Services	22,504,700	22,402,600	22,304,084
Model Court	497,300	447,600	442,569
Operating Lump Sum Appropriation	2,861,100	2,861,500	2,841,793
Operating Lump Sum Appropriation	702,500	702,900	578,270
Operating Lump Sum Appropriation	12,802,100	11,921,300	11,893,050
Probation Surcharge	3,425,700	3,596,900	2,667,509
Progressively Increasing Consequences	10,160,300	9,367,000	9,367,000
Repair/Rehab Cooling Tower, Courts Bldg FY04 - 05	114	114	0
Special Water Master	20,000	20,000	8,831
State Aid	40,200	0	0
Secretary of State			
Administrative Adjustments	0	15,781	15,781
Election Services	4,361,000	4,361,000	4,052,729
Help America Vote Act - Federal Funds	4,000,000	4,002,000	306,010
Help America Vote Act - Federal Funds FY07 - 08	12,353,562	12,353,562	11,467,909
Operating Lump Sum Appropriation	94,800	98,200	0
Operating Lump Sum Appropriation	2,619,000	2,469,700	2,360,629
Office of Tourism			
Cash Transfer To General Fund	700	700	700
City Of Yuma - Arizona Welcome Center	0	400,000	191,811
City Of Yuma - Arizona Welcome Center FY06 - 07	119,692	119,692	119,692
State Treasurer			
Administrative Adjustments	0	140,086	140,086
Community College Reimbursement ARS 15-1469.01	3,645,224	3,645,224	3,645,224
Corporate Income Tax Transfer	15,000,000	13,000,000	13,000,000
Justice Of the Peace Salaries	2,230,100	2,170,100	2,015,074
Operating Lump Sum Appropriation	2,841,400	2,551,500	2,537,690
Operating Lump Sum Appropriation	1,300	1,300	0
Rural County Reimbursement Subsidy	1,000,000	1,000,000	1,000,000
Transfer to Tourism Fund	15,996,413	15,996,413	15,996,413
Tax Appeals Board			
Administrative Adjustments	0	206	206
Operating Lump Sum Appropriation	305,200	284,200	262,813
University of Arizona			
Agriculture	34,521,600	26,900,150	26,900,150
Arizona Cooperative Extension	12,811,900	10,061,016	10,061,016
Clinical Rural Rotation	515,200	336,700	336,700
Clinical Teaching Support	9,969,700	7,674,650	7,674,650
Liver Research Institute	544,800	424,483	424,483
Operating Lump Sum-Health Sciences Center	55,176,900	43,616,233	43,616,233
Operating Lump Sum-Main Campus	292,796,800	206,168,026	206,168,026
Phoenix Medical Campus	12,401,300	9,628,766	9,628,766
Research Infrastructure Facilities	0	14,253,000	14,253,000
Sierra Vista Campus	3,873,700	2,940,633	2,940,633
Telemedicine Network	2,237,900	1,729,283	1,729,283
Department of Veterans' Services			
Arizona State Veterans' Home	2,855,000	2,608,800	2,314,361

The Notes to Required Supplementary Information are an integral part of this schedule.

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Arizona State Veterans' Home	10,000,000	0	0
Military Family Relief Fund	15,291	15,291	0
Operating Lump Sum Appropriation	2,007,300	2,097,000	2,096,459
Southern Arizona Cemetery	272,100	279,100	279,100
Telemedicine Project	10,000	10,000	0
Veterans Benefits Counselors	3,047,000	2,947,400	2,941,042
Veterans' Organizations Contracts	29,200	29,200	12,600
Department of Water Resources			
Adjudication Support	2,105,000	1,106,100	1,101,647
Administrative Adjustments	0	3,146	3,146
Arizona Water Protection Fund Deposit	2,000,000	0	0
Assured and Adequate Water Supply Admin	1,700,000	1,300,300	769,247
Automated Groundwater Monitoring	500,000	506,300	505,166
Conservation and Drought Program	491,200	491,500	465,761
Dam Repair - City Of Williams FY06 - 07	1,565	1,565	0
Operating Lump Sum Appropriation	15,372,400	6,721,000	6,700,386
Rural Water Studies	1,999,100	1,507,100	743,272
Rural Water Studies FY07 - 08	666,014	666,014	666,014
Department of Weights and Measures			
Administrative Adjustments	0	1,231	1,231
Operating Lump Sum Appropriation	1,640,200	1,387,900	1,379,270
Total General Fund Budgetary Expenditures before Adjustments	16,835,599,709	16,780,593,743	15,157,661,925
Less:			
Department of Health Services' AHCCCS - appropriations for Children's Rehabilitative Services, Arnold v. Sarn, Assurance and Licensure, Title XIX State Match, Medicaid Special Exemption, and Contract Compliance that were duplicate expenditure authorizations	(751,285,899)	(871,154,499)	0
Total General Fund Budgetary Expenditures after Adjustments	$ 16,084,313,810	$ 15,909,439,244	$ 15,157,661,925

The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
TRANSPORTATION AND AVIATION PLANNING,
HIGHWAY MAINTENANCE AND SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND			
Department of Administration			
Administrative Adjustments	$ 0	$ 5,000	$ 5,000
Department of Transportation			
2003 - Asbestos & Lead Inspections	589,466	589,466	0
2003 - East Valley Maintenance Yard	135,517	135,517	133,582
91 Douglas Maintenance Yard Adm Adj	2,000	2,000	0
98 - Arizona-Mexico Border Points	569	569	0
Abandoned Vehicle Administration	1,039,800	1,039,800	925,400
Administrative Adjustments	0	253	253
Administrative Adjustments	0	156,669	156,669
Airport Planning And Development	31,200,000	31,200,000	15,132,665
Airport Planning And Development	8,665,445	8,665,445	0
Alt Truck Route - Dougles Chino Rd	250,000	250,000	0
Asbestos & Lead Inspections	97,998	97,998	3,200
Asphalt Storage Tanks	184,771	184,771	71,955
Attorney General Legal Services	3,052,600	3,052,600	2,740,928
Building Renewal FY 06 - 07	12,264	12,264	0
Building Renewal FY 06 - 07	612,529	612,529	460,486
Building Renewal FY 07 - 08	83,394	83,394	27,443
Building Renewal FY 07 - 08	1,571,150	1,571,150	1,172,002
Building Renewal FY 08 - 09	156,900	156,900	85,677
Building Renewal FY 08 - 09	4,052,000	1,077,800	464,920
Cash Transfer To General Fund	0	22,479,400	22,479,400
Cash Transfer To General Fund	0	104,000,000	104,000,000
Cash Transfer To General Fund	0	14,400	14,400
Cash Transfer To General Fund	0	2,269,400	2,269,400
Cash Transfer To General Fund	0	2,194,300	2,194,300
Cash Transfer To General Fund	0	4,158,400	4,158,400
Cash Transfer To General Fund	0	8,390,600	8,390,600
De-Icer Buildings	125,717	125,717	114,283
De-Icer Buildings	1,799,129	(50,871)	(50,871)
De-Icer Buildings	1,825,000	0	0
Far Southeast Valley Multiuse Facility	5,184,495	0	0
Far Southeast Valley Multiuse Facility	2,350,000	0	0
Far Southeast Valley Multiuse Facility	1,510,256	0	0
Fraud Investigation	788,300	788,300	647,812
Grand Canyon Airport Modular Housing	2,460,217	2,460,217	2,413,553
Grand Canyon Airport Restroom Renovation	208,944	208,944	52,167
Grand Canyon Airport Water Storage Tank Renov	606,467	0	0
Highway Maintenance	131,468,300	131,486,600	109,809,348
Highway Maintenance	558,700	558,700	553,947
Highway Maintenance FY 07 - 08	3,204,965	3,204,965	3,202,422
Highway Maintenance FY 07 - 08	64	64	0
Highway to DPS Transfer	0	826,000	826,000
Highway to DPS Transfer - Double Load	41,050,500	41,050,500	41,050,500
HURF to DPS Transfer - Double Load	84,949,500	84,949,500	84,949,500
Highway Infrastructure - Douglas Weigh Station	178,000	178,000	0
Lump Sum Appropriation-Aeronautics	2,353,900	2,337,000	2,269,446
Lump Sum Appropriation-Highways	137,855,000	137,887,300	111,262,264
Lump Sum Appropriation-Motor Vehicle	101,888,900	101,911,100	92,883,666

The Notes to Required Supplementary Information are an integral part of this schedule. (Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
TRANSPORTATION AND AVIATION PLANNING,
HIGHWAY MAINTENANCE AND SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Lump Sum Appropriation-Motor Vehicle	1,613,700	1,599,300	1,564,967
Lump Sum Appropriation-Motor Vehicle	71,700	71,700	71,700
Lump Sum Appropriation-Motor Vehicle	1,641,500	1,604,300	1,429,925
Lump Sum Appropriation-Motor Vehicle	2,259,700	2,222,300	1,927,272
Lump Sum Appropriation-Motor Vehicle	143,300	143,300	143,300
Lump Sum Appropriation-Motor Vehicle	384,800	384,800	384,800
Modular Trailer Operating Expenses	7,519	7,519	0
Motor Carrier Towing Regulation	11,108	11,108	0
MVD Computer System Assessment	159	159	0
MVD Electronic Certificate Of Title System	4,852	4,852	0
MVD Electronic Certificate Of Title System	13,488	13,488	0
MVD One-Time Trailer Fees Implementation	43,724	43,724	0
MVD Security Enhancement Issues	783,110	783,110	45,437
MVD Security Enhancement Issues	1	1	0
New Third Party Funding	452,700	452,700	406,904
New Third Party Funding	78,200	78,200	75,883
New Third Party Funding	197,200	197,200	195,513
New Third Party Funding	232,200	232,200	232,200
Nogales Cyber Port Study	300,000	300,000	0
Nogales Port Of Entry	2	2	0
Oil And Asphalt Storage Tanks	1,331,905	(33,095)	(33,095)
Oil And Asphalt Storage Tanks	1,389,000	0	0
On-Line Verification Of Soc Sec Numbers	797	797	0
Operating Lump Sum Appropriation	42,409,600	42,417,400	40,645,602
Payson Motor Veh Division Service Center	1,229,400	0	0
Relief Bill Cash Transfer FY 09	0	1,344	1,344
Safety, Security, Traffic Mgmt & Control	18,000	18,000	0
Safford Vehicle Maintenance Shop	3,214,997	0	0
San Luis Inspection Station	2,000,000	0	0
San Luis Poe Connector Rd	200,000	200,000	0
Self To DPS Transfer - Double Load	1,564,100	1,615,600	1,615,600
Site Improve - Nogales Insp Station	54,000	54,000	0
Special Projects	30,868	30,868	0
Sprinklers/Fire Alarms	0	979,468	800,256
Statewide Highway Construction	305,582,000	305,582,000	235,285,236
Statewide Highway Construction	53,555,170	53,555,170	0
Surprise Motor Vehicle Division Service Center	3,956,124	82	82
Surprise Motor Vehicle Division Service Center	910,148	910,148	16,740
Traffic Safety Improvement Agreements	0	600,000	600,000
Vehicle and Heavy Equipment Fuel Surcharge	1,000,000	1,000,000	1,000,000
Vehicle Wash Systems	1,951,112	0	0
Vehicle Wash Systems	2,075,000	0	0
Total Transportation and Aviation Planning, Highway Maintenance and Safety Fund Budgetary Expenditures	$ 1,002,783,941	$ 1,115,404,406	$ 901,280,383

The Notes to Required Supplementary Information are an integral part of this schedule.

A. RECONCILIATION OF BUDGETARY TO GAAP EXPENDITURES

The accompanying Budgetary Comparison Schedules for the General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund present comparisons of the legally adopted budget with actual expenditure data on the budgetary basis. The original budget represents any appropriation bills passed by June 30, 2008 that affect available appropriations during fiscal year 2009. The final budget represents any appropriation bills passed during fiscal year 2009 for fiscal year 2009 plus the original budget. Appropriation bills passed after the end of fiscal year 2009 for fiscal year 2009 would also be included in the final budget.

The Budgetary Comparison Schedules present actual amounts on the State's budgetary basis for expenditures only. The Schedules include appropriations authorized in one fund and transferred, by legislation, to another fund. The State does not have a legally adopted budget for revenues; therefore, only expenditures are presented on the Budgetary Comparison Schedule, Expenditures for the General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund. As the budgetary and GAAP presentations of actual data differ, a reconciliation of the two follows (amounts expressed in thousands):

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	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund
Uses/outflows of resources		
Actual expenditure amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 15,157,662	$ 901,280
Differences – budget to GAAP:		
Increase in unpaid incurred expenditures from fiscal year end 2008 to fiscal year end 2009.	372,040	390,827
Increase in unpaid payroll expenditures from fiscal year end 2008 to fiscal year end 2009. For budgetary reporting, final June 2009 payroll expenditures were charged to fiscal year 2010 budget.	7,415	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	936,140	-
Distribution to counties and cities for Urban Revenue Sharing, derived from the State's income tax collections, is recognized as an expenditure on the modified accrual basis, but has no effect on budgetary expenditures.	727,677	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	3,134	-
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2009.	5,057,905	1,603,657
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(1,126,584)	(605,768)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	$ 21,135,389	$ 2,289,996

There were no expenditures in excess of appropriations or allotments in the individual budget accounts for the year.

B. BUDGETARY BASIS OF ACCOUNTING

Formulation of the budget begins with the preparation of estimates of expenditure requirements by the head of each budgeted agency and institution. These estimates are submitted no later than September 1 of each year to the Governor's Office of Strategic Planning and Budgeting, unless an extension is granted for up to an additional 30 days. The budget is prepared by line item and/or program elements for each agency.

The budget document, as finally developed by the Governor, must be submitted to the Legislature no later than five days after the regular session convenes. The Legislature must approve the budget by passing a general and a capital outlay appropriation bill and various omnibus reconciliation bills, which are used for statutory adjustments that must be implemented to carry out the budget. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative overrides. The budget can be amended throughout the year by special legislative appropriations and/or budget transfers. The State's Constitution prohibits the appropriation of certain state revenues (primarily tax and fee collections) from exceeding 7.41% of Arizona personal income as estimated by the Economic Estimates Commission.

The State prepares its operating budget on the cash basis of accounting. Encumbrances as of June 30 can be liquidated during an administrative period of up to four weeks known as the 13th month. At the time of the appropriation bill's passage, estimates prepared by legislative and executive branch professional staff assure the State Legislature that adequate revenues will be available to meet the level of appropriations approved. Anticipated revenue is estimated on the cash basis but is not part of the legally adopted budget. Consequently, the accompanying Budgetary Comparison Schedules only present budget to actual expenditure comparisons.

The Budgetary Comparison Schedules present all appropriation line items as passed by the State Legislature in order to demonstrate compliance with the legal level of budgetary control.

The State budgets on both an annual and biennial basis. Laws 1997, Chapter 210 required appropriated biennial budgets for all state agencies. In biennial budgets, an agency receives a separate appropriation for each of two fiscal years. For the "larger" seventeen state agencies, Laws 2002, Chapter 210 returned their budgets to a "one" year cycle beginning with the 2003 Legislative Session (fiscal year 2004 budget request).

The budget format used by the State Legislature determines how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funding. Among the possible format choices are the following:

> Lump Sum – The appropriation of an agency for each fiscal year consists of a single dollar amount, thereby allowing the agency to direct funds to its activities at its own discretion, without further Legislative or Executive Branch review. Within this format, any programs or Special Line Items may be listed separately.
>
> Modified Lump Sum – The appropriation of an agency for each fiscal year consists of at least three lines: Personal Services, Employee Related Expenditures, and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, pursuant to ARS §35-173, an agency must seek approval of the Joint Legislative Budget Committee (JLBC) before moving any funding into or out of the Personal Services and Employee Related Expenditures line items. Any other funding transfers would require approval by the Arizona Department of Administration (ADOA), but not the JLBC. ADOA funding transfers require approval from the JLBC.
>
> Detailed Line Item – The agency appropriation for each fiscal year consists of each line item listed in the Appropriations Report including Professional and Outside Services, Travel, Other Operating Expenditures, Equipment, Food, and any Special Line Items. The same rules govern Personal Services and Employee Related Expenditures funding transfers as noted in the Modified Lump Sum description. This appropriation format requires an agency to seek ADOA approval before initiating funding transfers between all other line items.

During the fiscal year, $465.198 million in supplemental appropriations, net of mid-year reversions and adjustments, were provided to major and non-major governmental funds primarily for fund transfers to the General Fund to address the State's budget impact created by revenue shortfalls. The General Fund appropriations decreased by $55.006 million and the

Transportation and Aviation Planning, Highway Maintenance and Safety Fund appropriations increased by $112.620 million, and those amounts are included in the Budgetary Comparison Schedules.

State agencies are responsible for exercising budgetary control and ensuring that expenditures do not exceed appropriations. The ADOA's General Accounting Office exercises oversight and does not disburse funds in excess of appropriations.

The Governor shall have in continuous process of preparation and revision a tentative budget report for the next two ensuing years for which a budget report is required to be prepared.

Whenever the expenses of any fiscal year shall exceed the income, the Legislature *may* provide for levying a tax for the ensuing fiscal year sufficient, with other sources of income, to pay the deficiency, as well as the estimated expenses of the ensuing fiscal year.

All expenditures of the State's money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature. Periodically, the State Legislature may appropriate monies for program expenditures already authorized by law, resulting in duplicate spending authority. In appropriating monies, the State Legislature has, in some cases, included external funding sources as a portion of an agency's total program expenditure authorization (budget) and has identified the external funding sources as an offset against the program appropriations total in order to reflect the State funding amount. An example of this is found in the $283.381 million Department of Health Services Children's Behavioral Health State Match for Title XIX on **page 141**. Accordingly, sometimes program expenditures may not exhaust specific legislative appropriations. To properly present the total budget (appropriation) information, in relationship to "actual" expenditure amounts, duplicate expenditure authorizations have been eliminated from the General Fund's budget (appropriation) totals on **page 148**.

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,753 center lane miles (18,544 travel lane miles) of roads and 4,648 bridges that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets
- Perform condition assessments of eligible assets and summarize the results using a measurement scale
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State
- Document that the assets are being preserved approximately at or above the established condition level

As adopted by the State Transportation Board on an annual basis, the Five-Year Transportation Facilities Construction Program (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadways and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2010 and beyond was adopted by the Transportation Board on June 19, 2009.

This Program is a dynamic instrument and adjustments are made to the annual plans based on the needs of the State to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the State. In addition, not only are adjustments made during the life of the Program, circumstances may require that refinements to the individual components of the Program be made during the fiscal year.

In comparing Estimated to Actual Expenditures in the tables that follow, significant variances can occur. These variances are primarily due to the methodology used in the preparation of the Program. In this Program, the Estimated Expenditures for the current year are based on "programmed" projects which may or may not be spent in the current year of the Program. "Programmed" expenditures consist of those items that are planned for the future and contracts that have not yet been awarded. Furthermore, the Actual Expenditures will include projects that were "programmed" for a prior year's Estimated Expenditures but which did not occur, or were not completed, in the prior year.

The following information pertains to the condition assessment and maintenance of infrastructure assets and reflects the State's success in achieving condition levels that exceed the established levels.

Roads

The mission of the Arizona Department of Transportation's (ADOT) Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the State's investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the ADOT PMS both work toward the same basic goal, the efficient, effective management of the State's assets to produce long-term benefits, while minimizing expenditures.

The PMS has developed performance goals for the condition level of the pavement in the State's highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called "Serviceability", which can be defined as the ability of a pavement to serve the traveling public (as documented in 1961 after the American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement and many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called the "Present Serviceability Rating" (PSR). PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

The goal of the State is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the State's highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2009, an overall rating of 3.74 was achieved, as shown in the following graph:

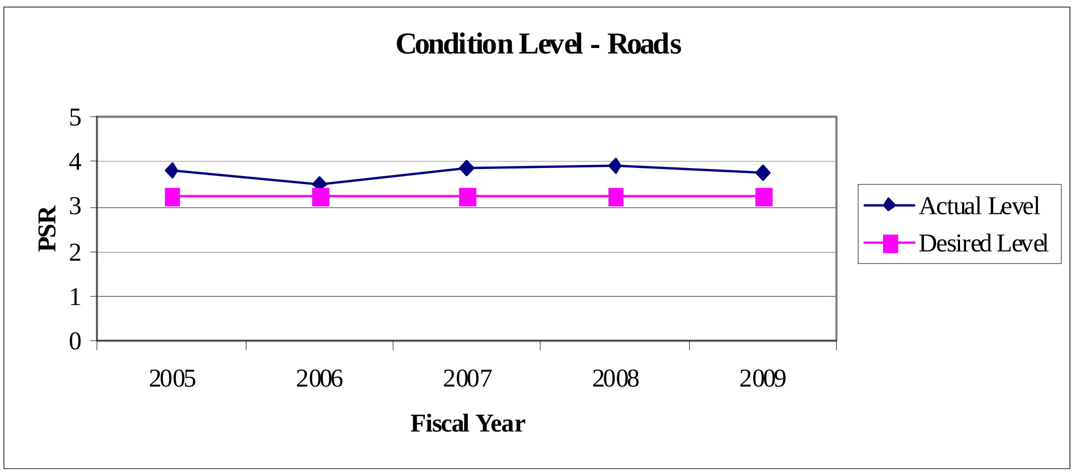

Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT PMS, as well as other units within the ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2005 through 2009 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2005	$235.7	$195.0
2006	$218.5	$211.5
2007	$216.4	$196.5
2008	$260.7	$247.9
2009	$264.4	$236.0

Bridges

Bridges constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2009, the State owns and maintains 4,648 bridges with an approximate total deck area of 44,441,921 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

A Condition Rating Index (CRI) is used to track the condition of the bridge network. The CRI is based on four selected bridge inspection condition ratings, which in turn are based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges." The four selected condition ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the super-structure condition, and the sub-structure condition. The bridge joints condition rating is an Arizona specific rating item not included in the FHWA condition rating guidelines, whereas the three other condition ratings are federally mandated condition ratings. The CRI is computed by subtracting from one, the ratio of the sum of the deck areas of all bridges with a condition rating of four or less, which indicates that the rated element is at best in a poor condition, to the total sum of the deck areas. The rating system in this guide is as follows:

Numerical Rating	Condition Rating
9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent Failure

Management of the bridge inventory is a major function of the ADOT's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of the State to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2009, the CRI was computed at 93.4%.

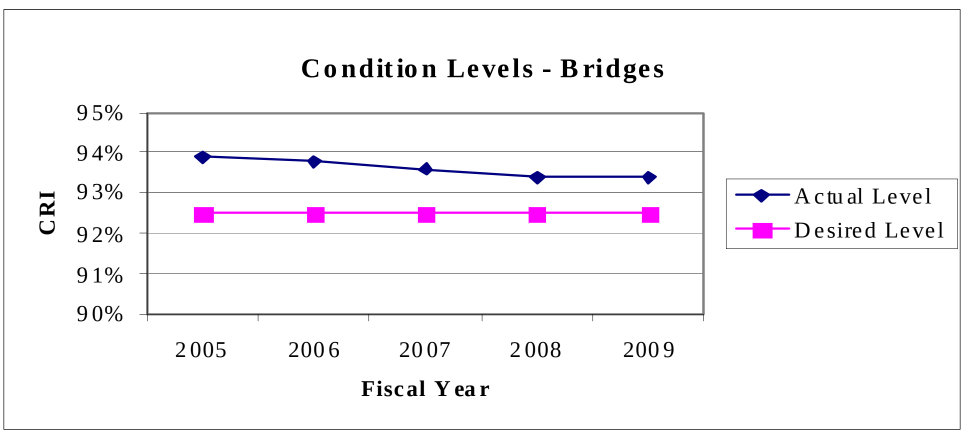

Figure 2

Bridges represent a major public investment and their inspection and maintenance is an essential function of the State in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 59% of the bridges in the State were constructed prior to the 1970s while only 21% have been constructed in the last two decades.

Age of the ADOT's Bridge Population

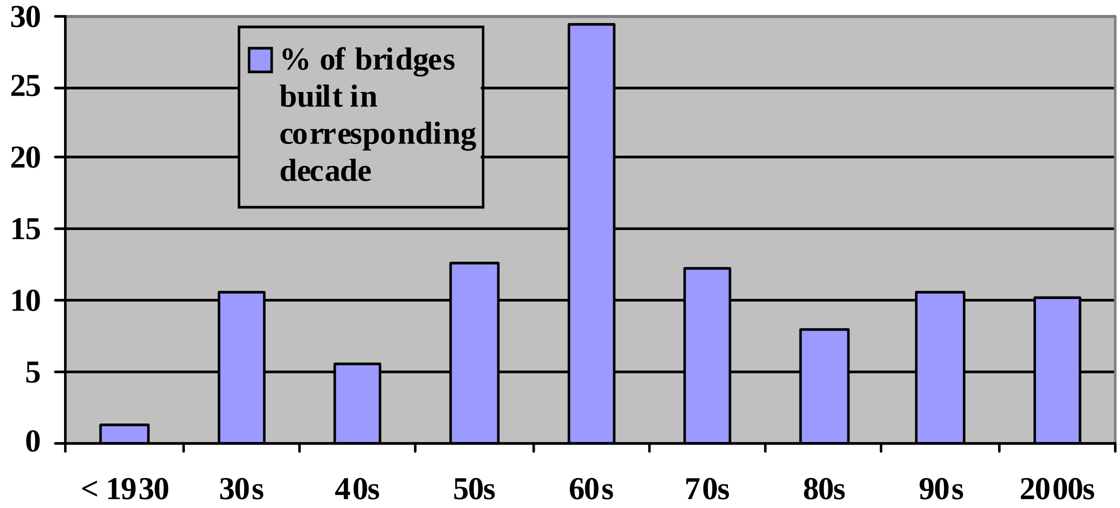

Figure 3

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2005 through 2009 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2005	$ 7.4	$11.0
2006	$10.6	$11.3
2007	$17.1	$22.5
2008	$13.4	$18.1
2009	$14.3	$17.3

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
AGENT BENEFIT PLANS' FUNDING PROGRESS
JUNE 30, 2009

Analysis of the funding progress for each of the agent, multiple-employer defined benefit pension plans, as of the most recent actuarial valuations, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2009	$ 564,000	$ 857,854	$ (293,854)	65.7%	$ 99,558	(295.2)%
	6/30/2008	547,255	824,620	(277,365)	66.4%	101,422	(273.5)%
	6/30/2007	537,999	799,950	(261,951)	67.3%	89,498	(292.7)%
CORP	6/30/2009	806,941	910,317	(103,376)	88.6%	373,674	(27.7)%
	6/30/2008	755,559	869,342	(113,783)	86.9%	376,819	(30.2)%
	6/30/2007	713,382	800,128	(86,746)	89.2%	369,337	(23.5)%

Analysis of the funding progress for each of the agent, multiple-employer defined benefit post-employment plans, as of the most recent actuarial valuations, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as Percentage of Covered Payroll
PSPRS	6/30/2009	-	$ 26,141	$ (26,141)	0.0%	$ 99,558	(26.3)%
	6/30/2008	-	30,584	(30,584)	0.0%	101,422	(30.2)%
	6/30/2007	-	31,344	(31,344)	0.0%	89,498	(35.0)%
CORP	6/30/2009	-	43,951	(43,951)	0.0%	373,674	(11.8)%
	6/30/2008	-	40,596	(40,596)	0.0%	376,819	(10.8)%
	6/30/2007	-	38,753	(38,753)	0.0%	369,337	(10.5)%

APPENDIX C

SUMMARY OF LEGAL DOCUMENTS

The following are summaries of certain provisions of the Lease and the Declaration of Trust, as well as certain defined terms used therein. The summaries do not purport to be complete, and reference is made to the full text of the Lease and the Declaration of Trust, respectively, for a complete recital of their terms, as well as a complete recital of the defined terms used therein.

DEFINITIONS

"*Additional Certificates*" means certificates, other than the Series 2010A Certificates and the Series 2010B Certificates, that may be executed and delivered pursuant to the Declaration of Trust.

"Additional Property" means Property Units 10 through 24.

"*Additional Rent*" means any payments required to be made pursuant to the Lease in addition to the Base Rent.

"*Appropriation*" means an appropriation by the Legislature that has become law.

"*Authorizing Law*" means Arizona Laws 2009, Third Special Session, Chapter 6, Section 32, and Arizona Laws 2010, Sixth Special Session, Chapter 4, Section 2, together with any additional or similar legislation authorizing the State to enter into lease-purchase agreements.

"*Available Amount*" means any amount that is available to the State for working capital expenditure purposes of the type financed by the Series 2010B Certificates, as set forth in Treasury Regulations § 1.148-6(d)(3)(iii). The Available Amount excludes proceeds of the Certificates, but includes cash, investments, and other amounts held in accounts or otherwise by the State or a related party if those amounts may be used by the State for working capital expenditures of the type being financed by the State without legislative or judicial action and without a legislative, judicial, or contractual requirement that those amounts be reimbursed (the Available Amount includes amounts held in the budget stabilization fund pursuant to Section 35-144, Arizona Revised Statutes, as amended). An amount equal to the Working Capital Reserve for any Fiscal Period may be excluded from the Available Amount determined for such Fiscal Period.

"*Base Rent*" means, as of each Lease Payment Date, the payments specified under the heading "SCHEDULE OF BASE RENT PAYMENTS" in this Official Statement, being the amount equal to the payment of the Principal Portion and the Interest Portion evidenced by the Certificates and due on such Lease Payment Date and the Mandatory Prepayment Amounts described in the Lease, as such payment amounts may be amended or modified, including in connection with the execution and delivery of Additional Certificates.

"*Beneficial Owner*" means any person for whom a Participant acquires an interest in a Certificate.

"*Book Entry Form*" or "*Book Entry System*" means a form or system under which (i) the beneficial ownership of and rights to Certificate Payments may be transferred only through a Book Entry, and (ii) physical Certificates are executed and delivered only to a Securities Depository or its nominee as Registered Owners, with the Certificates "immobilized" in the custody of the Securities Depository, and the Book Entry is the record that identifies the owners of beneficial interests in those Certificate Payments.

"*Business Day*" means a day of the year other than (a) Saturday or Sunday; (b) a day on which banking institutions located in the city designated by the Trustee for presentation and payment of Certificates are required or authorized to remain closed or (c) any day on which the Certificate Insurer is closed.

"*Certificates*" means the Series 2010A Certificates, the Series 2010B Certificates and any Additional Certificates.

"*Certificate Fund*" means the Certificate Fund established pursuant to the Declaration of Trust.

"*Certificate Insurance Policy*" *or "Policy"* means the insurance policy issued by the Certificate Insurer guaranteeing the scheduled payment of the principal and interest with respect to a series of Certificates when due; and, with respect to the Series 2010B Certificates, means the Series 2010B Certificate Insurance Policy.

"*Certificate Insurer*" means, with respect to the Series 2010B Certificates, the Series 2010B Certificate Insurer, and with respect to Additional Certificates the insurer named in the documents relating to Additional Certificates.

"*Certificate Payments*" means, for any period or time, the Principal Portion and Interest Portion evidenced by the Certificates and any premium due with respect thereto for that period or payable at that time, as the case may be.

"*Code*" means the Internal Revenue Code of 1986, as amended. References to the Code and Sections thereof include relevant applicable regulations and temporary regulations thereunder and any successor provisions to those Sections, regulations or temporary regulations and any applicable regulations or temporary regulations issued pursuant to the Internal Revenue Code of 1954.

"*Defeasance Obligations*" means, to the extent permitted by law and except to the extent provided otherwise with respect to Additional Certificates in the amendment to the Declaration of Trust authorizing their execution and delivery: (1) cash, (2) non-callable direct obligations of the United States of America ("*Treasuries*"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Certificate Insurer, pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, (5) subject to the prior written consent of the Certificate Insurer, securities eligible for "AAA" defeasance under then existing criteria of S&P, (6) any other investment approved in writing by the Certificate Insurer, or (7) any combination of the foregoing.

"*Director*" means the Director of the Department and any person or persons designated by the Director of the Department and authorized to act on behalf of the Director of the Department as certified by a written certificate signed by the Director of the Department and containing the specimen signature of each such person.

"*Eligible Investments*" means, to the extent permitted by law and except to the extent provided otherwise with respect to Additional Certificates in the amendment to the Declaration of Trust authorizing their execution and delivery;

1. Defeasance Obligations;

2. Federal Housing Administration debentures;

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

    A. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") Participation Certificates (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
    Senior debt obligations

B. Farm Credit Banks (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) Consolidated system-wide bonds and notes

C. Federal Home Loan Banks (FHL Banks) Consolidated debt obligations

D. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding the portion of their unpaid principal amounts)

E. Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)

F. Financing Corporation (FICO) Debt obligations

G. Resolution Funding Corp. (REFCORP) Debt obligations

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated 'A-1' or better by S&P.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million.

6. Commercial paper (having original maturities of not more than 270 days) rated 'A-1+' by S&P and 'Prime-1' by Moody's.

7. Money market funds rated 'AAm' or 'AAm-G' or higher by S&P

8. “State Obligations”, which means:

A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated 'A3' by Moody's and 'A' by S&P, or higher, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated “A-1+” by S&P and “MIG-1” by Moody's.

C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated “AA” or better by S&P and “Aa” or better by Moody's.

9. Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's meeting the following requirements:

A. the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

B. the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

C. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

E. no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

F. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements: With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's and acceptable to the Certificate Insurer, provided that:

A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

B. The Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

D. All other requirements of S&P in respect of repurchase agreements shall be met;

E. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Certificate Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (i) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

11. Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa2" by Moody's; provided that, by the terms of the investment agreement:

A. interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Certificates;

B. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Trustee thereby agrees to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

C. the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

D. the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Certificate Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Certificate Insurer;

E. the investment agreement shall provide that if during its term:

(i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Trustee (who shall give such direction if so directed by the Certificate Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Trustee, and

F. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

G. the investment agreement must provide that if during its term:

(i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, and

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, as appropriate.

12. 12. Interests in the Local Government Investment Pool established pursuant to Arizona Revised Statutes Section 35-326.

"*Environmental Regulations*" means all Laws and Regulations, now or hereafter in effect, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, et seq.), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, et seq.), the Clean Water Act, as amended (33 U.S.C. Section 1321, et seq.), the Clean Air Act, as amended (42 U.S.C. Section 7401, et seq.) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 et seq.), and any state or local similar laws and regulations and any so-called local, state or federal "superfund" or "superlien" law

"*Event of Non-Appropriation of Funds*" means termination of the Lease for non-appropriation of funds, as described in the Lease.

"*Fiscal Period*" means a period of 12 consecutive months commencing on July 1 and ending on June 30 or any other consecutive 12-month period that may be established as the fiscal year of the State for budgeting and appropriation purposes; provided, however, that if the Legislature enacts a general appropriations bill including Appropriations for Lease Payments due under the Lease for a period less than 12 consecutive months, Fiscal Period means the period for which the Legislature made such Appropriations.

"*Force Majeure*" means, without limitation, Acts of God; strikes, lockouts or other labor disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States or any of its departments, agencies, political subdivisions, courts or officials, or any civil or military authority; insurrections; civil disturbances; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornados; storms; droughts; floods; arrests; explosions; breakage, malfunction or accident to facilities, machinery, transmission pipes or canals; partial or entire failure of utilities; shortages of labor, materials, supplies or transportation, or any other similar or dissimilar cause that is beyond the control of the Lessee and occurs without the Lessee's fault or negligence and that the Lessee is unable to prevent by exercising reasonable diligence.

"*Interest Payment Date*" means April 1 and October 1 of each year, commencing October 1, 2010[*].

"*Interest Portion*" means the portion of each Lease Payment made by the State under the Lease and denominated as and comprising interest pursuant to the Lease.

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[*] Preliminary, subject to change.

"*Lease Payment Date*" means March 20 and September 20 of each year during the Lease Term, commencing September 20, 2010.

"*Lease Payments*" means the sum of the Base Rent and Additional Rent due at or during a stated time.

"*Lease Term*" means the period beginning on the date of the initial execution and delivery of the Series 2010A Certificates and ending on the date on which all Lease Payments and other amounts due under the Lease have been paid, or the date upon which the Lease is sooner terminated in accordance with its terms as described below.

"*Legislature*" means the Legislature of the State.

"*Lessee*" means the State, acting by and through the Director.

"*Lessor*" means the Trustee, acting in its fiduciary capacity on behalf of the registered owners of the Series 2010B Certificates under the Declaration of Trust, initially U.S. Bank National Association.

"*Mandatory Prepayment Amount*" means the additional Base Rent amounts calculated in accordance with Section 6 of the Lease Amendment to preserve the tax-exempt status of the Series 2010B Certificates.

"*Moody's*" means Moody's Investors Service or any successor thereto.

"*Net Proceeds*" when used with respect to any insurance proceeds or eminent domain award means the gross proceeds thereof less the payment of all expenses incurred in connection with the collection of those gross proceeds.

"*Opinion of Special Counsel*" means an opinion or opinions of a nationally recognized bond counsel firm whose opinion is given with respect to the Certificates when issued, or its successors or other nationally recognized bond counsel appointed by the State.

"*Original Purchaser*" means, collectively, as to the Series 2010B Certificates, the underwriters identified on the cover this Official Statement and as to Additional Certificates, the Person or Persons identified as the purchaser or purchasers in the applicable Declaration Amendment.

"*Outstanding*" when used with reference to Certificates, means, as of the applicable date, all Certificates that have been executed and delivered under the Declaration of Trust, except:

(a) Certificates canceled upon surrender, exchange or transfer, or canceled because of payment or redemption on or prior to that date;

(b) Certificates, or the portions thereof, for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited with the Trustee or any paying agents on or prior to that date for that purpose (whether upon or prior to the maturity or redemption date of those Certificates); provided, that if any of those Certificates are to be redeemed prior to their maturity, notice of that redemption has been given or arrangements satisfactory to the Trustee have been made for giving notice of that redemption, or waiver by the affected Registered Owners of that notice satisfactory in form to the Trustee has been filed with the Trustee;

(c) Certificates, or the portions thereof which are deemed to have been paid or discharged or caused to have been paid and discharged pursuant to the provisions of the Declaration of Trust; and

(d) Certificates in lieu of which others have been executed under the Declaration of Trust.

"*Participant*" means any participant contracting with the Securities Depository under the Book Entry System and includes securities brokers and dealers, banks and trust companies, and clearing corporations.

"Paying Agent" means any bank or trust company designated as a Paying Agent by or in accordance with the Declaration of Trust and initially means the Trustee.

"*Permitted Encumbrances*" means, as of any particular time, as (i) liens for ad valorem property taxes and special assessments not then delinquent, (ii) the Declaration of Trust; (iii) the Lease; (iv) the warranty deeds conveying the Property to the Trustee; (v) utility, access and other easements and rights-of-way, mineral rights, restrictions, exceptions and encumbrances that will not (x) materially interfere with or impair the operations being conducted on the Property, or (y) materially adversely affect the security granted to Certificate owners by the Declaration of Trust or easements granted to the Trustee; (vi) such minor defects, irregularities, encumbrances, easements, mechanic's liens, rights-of-way and clouds on title as, in the opinion of independent counsel, normally exist with respect to properties similar in character to the Property affected thereby for the purpose for which it was acquired or is held by the Trustee and do not (x) materially interfere with or impair the operations being conducted on the Property, or (y) materially adversely affect the security granted to Certificate owners by the Declaration of Trust or easements granted to the Trustee; (vi) certain other liens and encumbrances described in the title reports delivered in connection with the execution and delivery of the Certificates, together with any other liens and encumbrances approved from time to time by the Certificate Insurer; and (viii) with respect to the Additional Property, an Amended and Restated Lease Purchase Agreement, dated as of July 1, 2002.

"*Principal Portion*" means the portion of each Lease Payment made by the State under the Lease and denominated as and comprising principal pursuant to the Lease.

"*Proceeds Fund*" means the Proceeds Fund established pursuant to the Declaration of Trust.

"*Property*" means, collectively, all the real property and the improvements thereon of each of the Property Units described in the Lease, together with any additions, modifications, improvements and substitutions thereto.

"*Property Units*" means each discrete piece of real property and the improvements thereon described in the Lease and summarized under the heading "THE PROPERTY" in this Official Statement.

"*Rebate Fund*" means the Rebate Fund established pursuant to the Declaration of Trust.

"*Registered Owner*" or "*Owner*" means the person, including any nominee of the Securities Depository, in whose name a Certificate is registered on the registration records maintained by the Trustee.

"*Registrar*" means the Trustee, until a successor Registrar shall have become such pursuant to applicable provisions of the Declaration of Trust.

"*Required Property Insurance Coverage*" means insurance insuring the Property against loss or damage by fire, lightning, vandalism and malicious mischief and all other perils covered by standard "extended coverage" or "all risks" policies, including amounts as to which the State is a self-insurer as set forth in the State's certificate of insurance to be filed with the Lessor in accordance with the Lease.

"*Required Public Liability Insurance Coverage*" means comprehensive general accident and public liability insurance, including amounts as to which the State is a self-insurer as set forth in the State's certificate of insurance to be filed with the Lessor in accordance with the Lease.

"*Securities Depository*" means, initially, The Depository Trust Company, New York, New York, and its successors and assigns meeting the requirements for a "Depository" under the Declaration of Trust.

"*Series 2010A Certificate Insurer*" means Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) or any successor thereto or assignee thereof.

"*Series 2010B Account*" means the Series 2010B Account of the Proceeds Fund created in the Declaration of Trust.

"*Series 2010A Certificates*" means the Certificates of Participation, Series 2010A, executed and delivered pursuant to the Original Declaration of Trust in the original aggregate principal amount of $709,090,000 and dated as of the date of the initial execution and delivery thereof.

"*Series 2010B Certificates*" means the Certificates of Participation, Series 2010B, executed and delivered pursuant to the Declaration Supplement in the original aggregate principal amount of $300,000,000* and dated as of the date of the initial execution and delivery thereof.

"*Series 2010B Certificate Insurer*" means Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) or any successor thereto or assignee thereof.

"*Series 2010B Delivery Costs Subaccount"* means the subaccount so named of the Series 2010B Account of the Proceeds Fund created in the Declaration Supplement.

"Series 2010B Purchase Costs Subaccount" means the subaccount so named of the Series 2010B Account of the Proceeds Fund created in the Declaration Supplement.

"Series 2010B Rebate Account" means the Series 2010B Account of the Rebate Fund created in the Declaration Supplement.

"*S&P*" means Standard & Poor's Rating Services or any successor thereto.

"*State*" means the State of Arizona.

"*Subject to Appropriations*" means conditioned upon the Legislature making an Appropriation for the amounts payable by the State under the Lease when due.

"*Working Capital Reserve*" means for any Fiscal Period, the lesser of (i) five percent of the sum of (a) working capital expenditures paid during the preceding Fiscal Period, plus (b) capital expenditures paid during the preceding Fiscal Period out of revenues available during that preceding Fiscal Period, and (ii) the average month-end balance of the Available Amount during one or more prior twelve-month periods, the latest of which ends within twelve months before the date of the execution and delivery of the Series 2010B Certificates. In calculating the average month-end balance, proceeds of prior borrowings, whether taxable or tax-exempt, are disregarded.

THE LEASE

General

The Original Lease was executed upon the execution and delivery of the Series 2010A Certificates. The Original Lease will be amended by the Lease Amendment upon execution and delivery of the Series 2010B Certificates. The Lease contains the terms and conditions under which the Property will be leased to the State for the Lease Term. Additional provisions of the Lease are described under the heading "SOURCES OF PAYMENT FOR CERTIFICATES", "SCHEDULE OF BASE RENT PAYMENTS", and "THE PROPERTY" in this Official Statement.

Lease Term

The Lease Term will terminate upon the earliest of the following events:

* Preliminary, subject to change.

(a) the Legislature fails to make an Appropriation of funds to pay Lease Payments for the Property;

(b) an Event of Default (as defined in the Lease) by the Lessee and the election by the Trustee to terminate the Lease Term (with the consent of the Certificate Insurer);

(c) payment by the Lessee of the then applicable Purchase Price for the Property (provided that the Certificates are no longer Outstanding under the Declaration of Trust); or

(d) the payment by the Lessee of all Lease Payments scheduled to be paid by Lessee during the entire Lease Term (provided that the Certificates are no longer Outstanding under the Declaration of Trust).

Lease Payments

On each Lease Payment Date, the Lessee will pay to the Trustee when due, in lawful money of the United States of America, the Lease Payments, including the Base Rent for such Lease Payment Date as set forth in the Lease; provided that credit will be given for amounts on deposit in the Certificate Fund.

Except as described in the following sentence, the obligation of the Lessee to make Lease Payments and all other amounts required to be paid by the Lessee under the Lease and to perform its obligations under the Lease will be absolute and unconditional and will not be subject to abatement, set-off, defense, recoupment or counterclaim. The cost and expense of the performance by the Lessee of its obligations under the Lease and the incurrence of any liabilities of the Lessee under the Lease, including, without limitation, the payment of all Lease Payments and amounts payable under the Lease with respect to the Property, will be subject to and dependent upon Appropriations being made from time to time by the Legislature and an allocation thereof by the Department for such purposes, and is not a general obligation or indebtedness of the State or the Department.

Additional Rent

Lessee will pay to the Trustee, if and whenever applicable, the following amounts as Additional Rent:

(a) Promptly upon a receipt from the Trustee of a statement therefor, an amount equal to those charges, assessments and taxes imposed on the Trustee during the Lease Term, if any, resulting from the Trustee's ownership, leasing, rental, sale, purchase, possession or use of the Property or any portion thereof, exclusive of taxes on or measured by the Trustee's income;

(b) As and when the same become due, all reasonable costs and expenses incurred or to be paid by the Trustee in performance of its obligations under the Lease or the Declaration of Trust;

(c) All amounts owed to the Trustee or the Certificate Insurer pursuant to the indemnification provisions of the Lease;

(d) Within five days of notice from the Trustee, any amount required to be deposited into the Rebate Fund as determined by the calculations required to be made pursuant to the Declaration of Trust, which calculations the Lessee has agreed to make and to provide to the Trustee;

(e) All costs incident to the payments with respect to the Certificates (including applicable redemption premiums);

(f) All expenses incurred in the enforcement of any rights under the Lease or the Declaration of Trust;

(g) All other payments of whatever nature that the Lessee has agreed to pay or assume under the Lease;

(h) Any premium due for insurance required under the Lease; and

(i) Reimbursement of certain payments made by the Certificate Insurer.

The Lessee's obligation to pay Additional Rent in each Fiscal Period is Subject to Appropriations and the Department's allocation of funds. If Appropriations are not made for payment of all or any part of the Additional Rent or the Department does not allocate funds for such purpose, the Trustee may, with the consent of the Certificate Insurer, but is not obligated to, pay or advance the amount of such Additional Rent. If the Trustee so pays or advances any portion of such Additional Rent, the Lessee will, Subject to Appropriations, pay the Trustee such sums, including costs incurred by the Trustee, no later than the first Lease Payment Date in the next succeeding Fiscal Period during which a Lease Term is in effect if the Trustee pays or advances such Additional Rent and is repaid as provided in the Lease, the Lease will not be deemed terminated as a result of such nonpayment of Additional Rent.

Title

Except as described in the Official Statement, during the Lease Term, the Trustee will retain title to the Property. The Trustee and the Lessee agree that the Lease or any other appropriate documents (including a memorandum) may be filed or recorded to evidence the parties' respective interests in the Property and the Lease. The Trustee will not encumber or dispose of the Property except with the consent of the Certificate Insurer. Title to the Property will pass to the State upon the State's exercise of the purchase option granted in the Lease.

Maintenance, Operation, Modifications and Improvements

The Lessee, at its own expense, has agreed to maintain or cause to be maintained the Property in good order and condition, ordinary wear and tear excepted, and to make all necessary, proper or appropriate repairs, replacements and renewals thereof. The Trustee has no responsibility for such maintenance or repair. The Trustee agrees, however, that during the Lease Term it will not impair the Lessee's ability to operate or maintain the Property in sound operating condition.

The Lessee, in its discretion and at its expense, may make any additions, modifications or improvements to the Property that it deems desirable for its purposes, provided that (i) no such additions, modifications or improvements would adversely affect the structural integrity or strength of any improvements constituting a part of the Property or materially interfere with the use and operation of the Property, and (ii) the undertaking and completion of such additions, modifications and improvements would not cause the aggregate value of the Property to be reduced below the value of the Property immediately prior to the undertaking and completion of any such additions, modifications and improvements. All additions, modifications and improvements so made to the Property by Lessee will become and be deemed to constitute a part of the Property.

Insurance

The Lessee agrees to keep the Property continuously insured during the Lease Term with Required Property Insurance Coverage in the amount of the then Outstanding principal amount of the Certificates. Insurance may be obtained with any loss deductible commonly used by the Lessee. The Lessee is required to self-insure to the extent required to cover any loss deductible under such casualty insurance.

The Lessee agrees, during the Lease Term, to keep and maintain Required Public Liability Insurance Coverage with reference to the Property with coverage of a sufficient amount to meet the obligations of the Lessee.

The insurance requirements discussed above may be fulfilled by a self-insurance program maintained by the Lessee that has been approved by the Department, including but not limited to the State of Arizona Risk Management Program.

Any insurance (other than a program of self-insurance) shall be obtained and maintained by means of policies with nationally recognized, responsible insurance companies or in conjunction with other companies through an insurance trust or other arrangements satisfactory to the Trustee. All such companies must be qualified to do business in the State. The insurance (other than a program of self-insurance) to be provided may be by blanket policies. Each policy of insurance shall be written so as not to be subject to cancellation or substantial modification upon less than 45 days' advance written notice to the Trustee. The Lessee shall deposit with the Trustee, who shall provide copies of the same to the Certificate Insurer within five Business Days of receipt thereof, and annually thereafter, certificates or other evidence satisfactory to the Trustee that the insurance or self-insurance required by the Lease has been obtained and is in full force and effect and that all premiums on that insurance have been paid in full. Upon the expiration of any such insurance (except self-insurance), the Lessee shall furnish the Trustee with evidence satisfactory to the Trustee that such insurance has been renewed or replaced and that all premiums on that insurance have been paid in full, and the Lessor shall provide copies of the same to the Certificate Insurer within five Business Days of receipt thereof. Upon receipt of any notice of expiration, the Lessor shall notify the Certificate Insurer.

All insurance policies (except self-insurance) providing the Required Property Insurance Coverage shall contain standard mortgage clauses, shall be in amounts and with deductibles acceptable to the Certificate Insurer and generally maintained nationally for property of the same type as the Property and shall name the Trustee as an additional loss payee. All settlements resulting from any claim for loss or damage shall be adjusted with the Department and made payable to the Lessee subject to the provisions hereof. Any proceeds of policies providing Required Public Liability Insurance Coverage shall be applied toward the extinguishment or satisfaction of the liability with respect to which such insurance proceeds have been paid and any excess shall be retained by the Lessee.

Any material modifications to the Required Public Liability Insurance Coverage or the Required Property Insurance Coverage shall be subject to the approval of the Certificate Insurer.

Liens and Encumbrances

The Lessee is required to keep the Property free and clear of all liens and encumbrances except Permitted Encumbrances. The Trustee may not create any liens or encumbrances on the Property or any portion thereof except for Permitted Encumbrances and as otherwise permitted by the Lease.

Risk of Loss

The Lessee assumes all risk of loss of or damage to the Property from any cause whatsoever. No loss of or damage to, or appropriation by governmental authorities of, or defect in or unfitness or obsolescence of, the Property will relieve the Lessee of the obligation to make Lease Payments during the Lease Term or to perform any other obligation under the Lease.

In case of any damage to or destruction of the Property that might exceed $1,000,000, the Lessee will promptly give or cause to be given written notice thereof to the Trustee, who shall promptly give notice thereof to the Certificate Insurer, generally describing the nature and extent of such damage or destruction. Unless the Lessee exercises its option to purchase the Property pursuant to the Lease, there shall be no abatement or diminution of Lease Payments and the Lessee shall, whether or not the Net Proceeds of insurance, if any, received on account of such damage or destruction are sufficient for such purpose, promptly commence and complete, or cause to be commenced and completed, the repair or restoration of the Property as nearly as practicable to the value, condition and character thereof existing immediately prior to such damage or destruction, with such changes or alterations, however, as the Lessee deems necessary for proper operation of the Property.

In the event of total destruction of the Property, the Lessee will apply insurance proceeds, self-insurance and any other moneys available and appropriated for the purpose to the acquisition and installation of replacement facilities to constitute the Property, unless the Lessee provides for defeasance of the Lease pursuant to its terms from lawfully available funds, including Net Proceeds of insurance.

Any Net Proceeds in excess of the amount required as described in the two preceding paragraphs shall be paid to and held by the Trustee in accordance with the Declaration of Trust.

Indemnification

To the extent permitted by law and with certain exceptions, the Lessee releases and indemnifies the Trustee and the Certificate Insurer for, from and against any and all liabilities, obligations, losses, claims and damages imposed upon or assessed against them pertaining to the Property, the Declaration of Trust, the Lease, and any related instrument, as set forth in the Lease.

Eminent Domain

If title to or the temporary use of the Property is taken under the exercise of the power of eminent domain, the Lessee will promptly notify the Trustee of the nature and extent of such taking. Any Net Proceeds received from any eminent domain award and not used to acquire replacement property constituting part of the Property are required, if received prior to the end of the Lease Term, to be paid to and held by the Trustee in accordance with the Declaration of Trust.

Compliance with Legal Requirements

The Lessee, at its expense, shall promptly comply or cause compliance with all applicable laws, ordinances, resolutions, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions and requirements of all governmental entities, departments, commissions, boards, courts, authorities, agencies and officers relating to the Property, including, without limitation, all Environmental Regulations, and shall procure, maintain and comply with all permits, licenses and other authorizations required for any use of the Property then being made or anticipated to be made, and for the proper construction, installation, operations and maintenance of the Property, and will comply with any instruments of record at the time in force burdening the Property

Assignments

The Lessee may not without the written consent of the Trustee and the Certificate Insurer (i) transfer, pledge, hypothecate or grant a security interest in the Property or any interest therein (without replacement or substitution in accordance with the terms of the Lease), (ii) sublease the Property or any portion thereof to anyone other than an agency of the State, or (iii) permit the Property to be operated by anyone other than the Lessee or an agency of the State and certain employees or agents thereof. The Trustee may not assign its rights, title and interest in and to the Lease, the Property or any portion thereof or any documents executed with respect to the Lease, or grant or assign a security interest in its interest in the Lease or any the Property except in connection with a transfer to a successor trustee in accordance with the Declaration of Trust.

Defaults and Remedies

The following are events of default under the Lease:

(a) failure by the Lessee to pay in full any Base Rent payments as it becomes due in the manner specified in the Lease, other than as a result of termination of the Lease as a result of an Event of Non-Appropriation of Funds; or

(b) the Lessee's failure to make any Additional Rent payments within 90 days after written notice of such Additional Rent; or

(c) failure by the Lessee to observe or perform any covenant, condition, or agreement on its part to be observed or performed under the Lease, other than as referred to in (a) above, and the failure is not cured or steps satisfactory to the Trustee taken to cure the failure within 30 days after written notice of the failure is given to the Lessee by the Trustee.

Notwithstanding the foregoing, if, by reason of Force Majeure, the Lessee is unable to perform or observe any agreement, term or condition of the Lease, other than any obligation to make payments required under the Lease, the Lessee will not be deemed in default during the continuance of such inability. However, the Lessee is required to promptly give notice to the Trustee of the existence of any event of Force Majeure and will use its best efforts to remove the effects thereof.

Upon the occurrence and continuance of an event of default, the Trustee will be entitled, pursuant to the Lease, to exercise any one or more of the following remedies: (1) by written notice to the Lessee, terminate the Lease and direct the Lessee to (and the Lessee agrees that it will), at the Lessee's expense, promptly return possession of the Property to the Lessor; (2) sell or lease the Lessor's interest in the Property pursuant to the terms of the Lease, holding the Lessee liable for all applicable Lease Payments and other payments due during the then-current Fiscal Period to the effective date of such selling or leasing and for the difference between the purchase price, rental and other amounts paid by the purchaser or lessee pursuant to such sale or lease and the amounts payable during the then-current Fiscal Period by the Lessee under the Lease; and (3) exercise any other right, remedy or privilege which may be available to it under the applicable laws of the State or any other applicable law or proceed by appropriate court action to enforce the terms of the Lease or to recover damages for the breach of the Lease or to rescind the Lease. The Lease Payments cannot be accelerated under the Lease.

Notwithstanding any of the foregoing, but subject to the Trustee's rights under the Declaration of Trust to receive indemnification for expenses incurred in pursuing remedies, so long as the Certificate Insurer is not in default of its obligations under the Certificate Insurance Policy and the Certificate Insurance Policy is in effect, the Certificate Insurer, acting alone, will have the right to direct the Trustee to pursue any remedy provided for in the Lease and the Trustee will not pursue any remedy except with the prior consent of the Certificate Insurer. The Trustee will not waive any default or event of default under the Lease without the prior consent of the Certificate Insurer.

Mandatory Prepayment for Tax-Exemption

In addition to the tax covenants contained in the tax compliance certificate of the Department executed by the Department in connection with the execution and delivery of the Series 2010B Certificates, promptly after the end of each Fiscal Period following delivery of the Series 2010B Certificates, and not later than December 1, 2010, and each December 1 thereafter (each December 1 being a "*computation date*"), while any of the Series 2010B Certificates remain Outstanding, the Lessee shall cause to be calculated the Available Amount (as defined in the Lease) as of the end of the preceding Fiscal Period.

As soon as practicable after completion of the calculation of the Available Amount as of the end of each Fiscal Period, and in no event more than 30 days thereafter, the Lessee covenants that it will cause an amount equal to the Available Amount, if any, to be segregated and invested in obligations of one or more states of the United States or political subdivisions thereof, that are lawful investments under State law the interest on which is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations ("*non-amt tax-exempt investments*"). The Available Amount will remain invested in non-amt tax-exempt investments until calculation of the Available Amount as of the end of the following Fiscal Period (and any resulting adjustment in the amount required to be so invested) or until used to prepay the Lease and redeem Series 2010B Certificates.

If the Available Amount is positive for any Fiscal Period beginning with the 2014-2015 Fiscal Period (the "*Mandatory Prepayment Amount*") and all the Series 2010A Certificates have been prepaid in accordance with Section 27 of the Original Lease, the Department covenants to request in its budget required pursuant to Section 35-111 Arizona Revised Statutes an Appropriation equal to the Available Amount, which Appropriation is to be included in the next Fiscal Period budget. The Department further covenants to use the Appropriation of the Available Amount to prepay amounts due under the Lease and to redeem the Series 2010B Certificates in an amount equal to the Available Amount (less rounding amounts to account for the authorized denominations of the Series 2010B Certificates), on the earliest prepayment date and redemption date which shall be any date, as provided in the Declaration of Trust, and not later than the next October 1 after the enactment of the legislation authorizing the Appropriation of the Available Amount.

The principal amount of Series 2010B Certificates of each maturity to be redeemed from the Mandatory Prepayment Amount shall be selected by the Department so that, subject to adjustment for rounding amounts to account for the authorized denominations of the Series 2010B Certificates, (i) the amount applied to redeem Series 2010B Certificates of that maturity bears the same relationship to the total amount to be applied to redeem Series 2010B Certificates of all maturities as the Outstanding principal amount of Series 2010B Certificates of that maturity bears to the Outstanding principal amount of Series 2010B Certificates of all maturities, or (ii) the weighted average maturity of the Series 2010B Certificates remaining Outstanding after the redemption is no longer than the weighted average maturity of the Series 2010B Certificates Outstanding immediately prior to the redemption.

If the State fails to calculate the Available Amount by the computation date, the Lessor shall retain an independent certified public accounting firm or other qualified independent person, at the expense of the State, to make or cause to be made such calculation and shall provide to the State and the Lessor copies of such calculations.

Amendments to Lease

The Lease may not be modified, amended, altered or changed except (i) without the consent of the Registered Owners of the Certificates but with the prior written consent of the Certificate Insurer, the Trustee may enter into any amendment, change or modification of the Lease as may be required (a) by the provisions of the Lease or the Declaration, (b) in connection with the execution or delivery of Additional Certificates, (c) for the purpose of curing any ambiguity, inconsistency or formal defect or omission in the Lease, (d) in connection with an amendment or to effect any purpose for which there could be an amendment of the Declaration, (e) modify or amend Exhibit B to the Lease, provided that the Lease Payments Schedule set forth therein will not be modified except as to the deletion of any Base Rent attributable to the Property purchased pursuant to the Lease or as to which termination occurred pursuant to the Lease, or (f) in connection with any other change therein which is not to the prejudice of the Trustee or the Registered Owners of the Certificates, in the judgment of the Trustee; and (ii) in all other cases only with the written consent of the Lessee, the Trustee, the Certificate Insurer and in some cases the Registered Owners, as established in the Declaration of Trust; provided that so long as the Certificate Insurance Policy shall remain in full force and effect with respect to the Series 2010B Certificates and the proposed amendment shall not adversely affect the ratings of S&P and Moody's then in effect with respect to the Series 2010B Certificates, no notice to or consent of the Registered Owners shall be required and the consent of the Certificate Insurer shall be deemed to constitute consent of the Registered Owners.

THE DECLARATION OF TRUST

Series 2010B Certificates

The Original Declaration of Trust was executed in connection with the Series 2010A Certificates. The Declaration of Trust will be supplemented by the First Supplement upon execution and delivery of the Series 2010B Certificates. Additional provisions of the Declaration of Trust are described under the heading "THE SERIES 2010B CERTIFICATES" in this Official Statement.

The First Supplement directs the Trustee to prepare, execute and deliver the Series 2010B Certificates. The Series 2010B Certificates will be delivered in fully registered form. One certificate for each maturity will be delivered in the aggregate principal amount evidenced by such maturity. The Series 2010B Certificates will be registered on the registration books for the Series 2010B Certificates to Cede & Co., the nominee for the Securities Depository, and no Beneficial Owner will receive certificates representing their respective interests in the Series 2010B Certificates, except in the event the Trustee executes and delivers replacement Certificates as provided in the

Declaration of Trust. It is anticipated that, during the term of the Series 2010B Certificates, the Securities Depository will make book entry transfers among its Participants and receive and transmit payments of principal and interest evidenced by such Series 2010B Certificates until and unless the Trustee executes and delivers replacement Certificates to the Beneficial Owners.

Proceeds Fund

In addition to the description under the heading, "STATE'S USE OF PROCEEDS FROM SALE OF PROPERTY" in this Official Statement, the Series 2010B Account of the Proceeds Fund is to be used for the fees, charges and expenses incurred in connection with the authorization, sale, execution and delivery of the Series 2010B Certificates including, without limitation, the fees and expenses of the Trustee.

The Trustee is directed to make payments from the Proceeds Fund in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Declaration of Trust. No such payment will be made until the Trustee will have received a written order signed by an authorized officer of the Lessee stating with respect to each payment to be made that each obligation, item of cost or expense mentioned therein has been properly incurred, is a proper charge against the Proceeds Fund, has not been the basis of any previous withdrawal and as to such other conditions set forth in the Declaration of Trust.

Any amount remaining in the the Proceed Fund upon the occurrence of an Event of Default shall, unless otherwise directed by the Certificate Insurer, be immediately transferred to the Certificate Fund and used to pay principal and interest with respect to the Certificates.

Certificate Fund

All Lease Payments (except indemnity payments) and all other moneys received by the Trustee with respect to the Lease are to be deposited in the Certificate Fund by the Trustee immediately upon their receipt. Moneys in the Certificate Fund are to be applied to Certificate Payments when due on each Interest Payment Date; provided, that no part thereof may be used to redeem any Certificate prior to maturity, except as may be provided otherwise in the Declaration of Trust.

Certificate Payments, except to the extent paid from the proceeds of the Certificates, are payable, as they become due: (i) in the first instance from the Lease Payments to be made directly by the Lessee to the Trustee pursuant to the terms of the Lease and to be deposited in the Certificate Fund; (ii) if those Lease Payments are not made or if moneys then on deposit in the Certificate Fund and available for that purpose are not sufficient to pay the Certificate Payments, from other revenues to the extent then available, and (iii) from any other source lawfully available to the Trustee, including without limitation, proceeds from the sale or liquidation of any collateral then pledged to the Trustee, but such sale may occur only with the consent or at the direction of the Certificate Insurer.

Series 2010B Rebate Account

A Series 2010B Rebate Account is created within the Rebate Fund for the purpose of complying with the rebate requirements of the Code with respect to the Series 2010B Certificates. Amounts credited to the Series 2010B Rebate Account are free and clear of any pledge under the Declaration of Trust. Moneys and investments in the Series 2010B Rebate Account are to be invested pursuant to the procedures and in the manner provided for investment of moneys in the Series 2010B Account and the Certificate Fund.

Investment of Funds

Moneys held in the Proceeds Fund, the Certificate Fund and the Rebate Fund are to be invested and reinvested by the Trustee to the fullest extent practicable in Eligible Investments which mature not later than such times as will be necessary to provide moneys when needed for payments to be made from such funds.

Interest or income received by the Trustee on investment of moneys in each fund established under the Declaration of Trust constitute part of that respective fund, and each respective fund will be credited with all proceeds of sale and income from investments of moneys credited thereto.

Trustee

The Trustee (i) may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees, (ii) shall be entitled to the advice of counsel concerning all matters of trusts hereof and duties hereunder, and (iii) may pay reasonable compensation in all cases to all of those attorneys, agents, receivers and employees reasonably employed by it in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney approved by the Trustee in the exercise of reasonable care.

The Trustee may intervene on behalf of the Registered Owners, and shall intervene if requested to do so in writing by the Certificate Insurer or the Registered Owners of at least 25 percent of the aggregate principal amount of Certificates then outstanding, in any judicial proceeding to which the Lessee is a party and which in the opinion of the Certificate Insurer or the Trustee and its counsel has a substantial bearing on the interests of Registered Owners of the Certificates.

The Trustee may resign at any time from the trusts created hereby by giving at least 30 days written notice of the resignation to the Lessee, the Certificate Insurer, the Registrar, any Paying Agents and the Original Purchaser of each series of Certificates then outstanding, and by mailing written notice of the resignation to the Registered Owners as their names and addresses appear on the Registrar at the close of business 15 days prior to the mailing. No resignation of the Trustee shall become effective until a successor has been appointed and accepted the duties of the Trustee. If no successor Trustee is appointed within 60 days of the resignation of the Trustee, the resigning Trustee may apply to a court of competent jurisdiction to appoint a successor Trustee.

The Trustee may be removed at any time by an instrument or document or concurrent instruments or documents in writing delivered to the Trustee, with copies thereof mailed to the Lessee, the Certificate Insurer, the Registrar and any Paying Agents and signed by or on behalf of the Certificate Insurer or, if the Certificate Insurer is in default under the Certificate Insurance Policy, the Registered Owners of not less than a majority in aggregate principal amount of the Certificates then outstanding.

No removal of the Trustee shall become effective until a successor has been appointed and has accepted the duties of the Trustee. The Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Declaration of Trust with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Lessee or the Registered Owners of not less than 20 percent in aggregate principal amount of the Certificates then outstanding under the Declaration of Trust with the consent of the Certificate Insurer.

Any successor Trustee, however, (i) shall be a trust company or a bank having the powers of a trust company, (ii) shall be in good standing within the State, (iii) shall be duly authorized to exercise trust powers within the State, and (iv) shall have reported capital and surplus of not less than $50,000,000.

Action on Event of Default

The following are events of default under the Declaration of Trust:

(a) Payment of principal or interest evidenced by any Certificate or any premium thereon is not made when and as that payment becomes due and payable, whether at stated maturity or by redemption;

(b) Any event of default under the Lease of which the Trustee has received actual notice (the Trustee will be deemed to have notice of any payment default under the Lease by virtue of its capacity as Lessor).

In the Trustee's determination of whether an event of default described in subsection (a) above has occurred, no effect will be given to payments made under the Certificate Insurance Policy.

Upon the occurrence and continuance of any event of default under the Declaration of Trust or under the Lease, the Trustee may proceed, and upon written request of the Certificate Insurer or the Registered Owners of not less than 25 percent in aggregate principal amount of Certificates then Outstanding shall proceed, to take whatever action at law or in equity is necessary to enforce the payment of the Certificate Payments or performance and observance of any obligation, agreement or covenant under the Lease or the Declaration of Trust; provided, however, that the maturities of the Certificates or any Lease Payment that is not then past due or in default cannot be accelerated under the Lease or the Declaration of Trust. Upon the occurrence of an event of default or nonappropriation under the Lease and upon provision of indemnification satisfactory to the Trustee as described below, the Trustee is required to act upon the direction of the Certificate Insurer to sell or lease the Property if such direction is provided.

Prior to exercising remedies under the Declaration of Trust, the Trustee may require that satisfactory indemnification and assurances be provided to it for reimbursement of all reasonable expenses that it may incur in exercising its remedies. Such assurances may include, but are not limited to, environmental audits or other evidence satisfactory to the Trustee that it will not incur liability by reason of any remedial action taken pursuant to the Declaration of Trust.

Notwithstanding any of the foregoing, but subject to the provisions of the Declaration of Trust, so long as the Certificate Insurer is not in default of its obligations under the Certificate Insurance Policy and the Certificate Insurance Policy is in effect, the Certificate Insurer, acting alone, has the right to direct the Trustee to pursue any remedy provided for in the Declaration of Trust, and the Trustee will not pursue any remedy except with the prior consent of the Certificate Insurer. The Trustee shall not waive any default or event of default under the Declaration of Trust without the prior consent of the Certificate Insurer.

Waivers of Events of Default

With prior written consent of the Certificate Insurer, the Trustee may waive any event of default under the Declaration of Trust (except payment defaults) and any consequence thereof in its discretion and will do so upon the written request of the Registered Owners of (a) at least a majority in aggregate principal amount of all Certificates then Outstanding in respect of which an event of default in the payment of Certificate Payments exists, or (b) at least 25 percent in aggregate principal amount of all Certificates then Outstanding, in the case of any other event of default. Payment defaults may not be waived unless, at the time of the waiver, all payments have been paid or provided for.

In the case of such waiver, or in case any suit, action or proceedings taken by the Trustee on account of any event of default will have been discontinued, abandoned or determined adversely to it, the Trustee and the Registered Owners will be restored to their former positions and rights under the Declaration of Trust, respectively. No waiver will extend to any subsequent or other event of default or impair any right consequent thereon.

Notwithstanding the foregoing, the Trustee shall not waive any Event of Default under the Declaration of Trust without the prior written consent of the Certificate Insurer.

Application of Moneys

After payment of any reasonable costs, expenses, liabilities and advances paid or incurred by the Trustee in the collection of moneys pursuant to the Declaration of Trust (including reasonable attorneys' fees and expenses) and any moneys necessary to be paid into the Rebate Fund, all moneys received by the Trustee, will be applied as follows (except for moneys held by the Trustee in trust for particular owners in accordance with the Declaration of Trust):

First -- To the payment to the Registered Owners entitled thereto of all installments of interest then due with respect to the Certificates, in the order of the dates of maturity of the installments of that interest, beginning with the earliest date of maturity and, if the amount available is not sufficient to pay in full any particular installment, then to the payment thereof ratably, according to the amounts due on that installment, to the Registered Owners entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Certificates; and

Second -- To the payment to the Registered Owners entitled thereto of the unpaid principal of any of the Certificates which will have become due (other than Certificates previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Declaration of Trust), whether at stated maturity or by redemption, in the order of their due dates, beginning with the earliest due date, and if the amount available is not sufficient to pay in full all Certificates due on any date, then to the payment thereof ratably, according to the aggregate amounts of principal due, to the Registered Owners entitled thereto, without any discrimination or privilege.

Whenever moneys are to be applied as described above, those moneys will be applied at such times, and from time to time, as the Trustee determines, having due regard for the amount of moneys available for application and the likelihood of additional moneys becoming available for application in the future; provided, however, that nothing in the Declaration of Trust grants the Trustee discretion not to liquidate any Eligible Investments in the Certificate Fund and pay Certificate Payments due on an Interest Payment Date. Whenever the Trustee directs the application of those moneys, it will fix and give notice of the date upon which the application is to be made, and upon that date, interest will cease to accrue on the amounts of principal, if any, to be paid on that date, provided the moneys are available therefor.

After application of amounts described above, any remaining moneys shall be paid to the Lessee.

Defeasance

If the Trustee pays, or causes to be paid and discharged, all of the Outstanding Certificates, and provision is made for the payment of all other sums payable under the Declaration of Trust and under the Lease, then the Declaration of Trust will cease, determine and become null and void, and the covenants, agreements and obligations of the Trustee thereunder will be released, discharged and satisfied.

All or any part of the Certificates will be deemed to have been paid and discharged within the meaning of the Declaration of Trust if (a) the Trustee has received, in trust for and irrevocably committed thereto, sufficient moneys, or (b) the Trustee has received, in trust for and irrevocably committed thereto, noncallable Defeasance Obligations which are certified by an independent public accounting firm to be of such maturities or redemption dates and interest payment dates, and to bear such interest, as will be sufficient together with any moneys to which reference is made in (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (which earnings are to be held likewise in trust and so committed, except as described herein), for the payment of all Certificate Payments for those Certificates, at their maturity or redemption dates, as the case may be, or if a default in payment has occurred on any maturity or redemption date, then for the payment of all Certificate Payments thereon to the date of the tender of payment; provided, that if any of those Certificates are to be redeemed prior to maturity thereof notice of that redemption has been duly given or irrevocable provision satisfactory to the Trustee has been duly made for the giving of that notice.

In the event of an advance refunding, the Lessee or the Trustee will cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants verifying the sufficiency of the escrow established to pay the Certificates in full (“Verification”), (ii) the escrow agreement which shall be acceptable to the Certificate Insurer, (iii) an opinion of nationally recognized bond counsel to the effect that the Certificates are no longer Outstanding under the Declaration of Trust, each of which must be addressed to the Lessee, the Trustee and the Certificate Insurer, and (iv) a certificate of discharge of the Trustee with respect to the Certificates.

Amounts paid by the Certificate Insurer under the Certificate Insurance Policy will not be deemed paid for purposes of the Declaration of Trust and will continue to be due and owing until paid by the Lessee in accordance with the Declaration of Trust. The Declaration of Trust will not be discharged until all amounts due or to become due to the Certificate Insurer have been paid in full or duly provided for.

Amendments to Declaration of Trust

Without the consent of, or notice to, the Registered Owners of Certificates, but with the prior written consent of the Certificate Insurer, the Trustee may execute amendments to the Declaration of Trust, not inconsistent with the terms and provisions of the Declaration of Trust, for any one or more of the following purposes: (i) to cure any ambiguity, inconsistency or formal defect or omission in the Declaration of Trust; (ii) to confer upon the Trustee additional rights, remedies, powers or authority for the benefit of the Registered Owners of the Certificates; (iii) to assign additional revenues under the Declaration of Trust and to accept additional security and instruments and documents of further assurance with respect to the Property; (iv) to add to the covenants of the Trustee to be observed for the protection of the Registered Owners or to limit any right of the Trustee; (v) to evidence any succession to the Trustee and the assumption by such successor of the covenants and agreements of the Trustee under the Declaration of Trust, the Lease and the Certificates; (vi) to make necessary of advisable amendments or additions in connection with the execution and delivery of Additional Certificates in accordance with the Declaration of Trust; (vii) to permit the transfer of Certificates from one Securities Depository to another, the succession of Securities Depositories, and the withdrawal of Certificates issued to a Securities Depository for use in a Book Entry System and the execution and delivery of replacement Certificates in fully registered form to others than a Securities Depository; (viii) to permit the Trustee to comply with any obligations imposed by law; (ix) to specify further the duties and responsibilities of, and to define further the relationship among the Trustee, the Registrar, and any authenticating agent or paying agents; (x) to achieve compliance with any applicable federal securities or tax law, and (xi) to permit any other amendment not prejudicial to the Trustee or the Registered Owners of the Certificates.

In addition, with the prior written consent of the Certificate Insurer and the consent of the Registered Owners of not less than a majority in aggregate principal amount of all Certificates then Outstanding under the Declaration of Trust, the Trustee may execute other amendments to the Declaration of Trust for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions of the Declaration of Trust or any amendment thereof (a "Declaration Amendment") or restricting in any manner the rights of the Registered Owners. Notwithstanding the foregoing, so long as the Certificate Insurance Policy shall remain in full force and effect, and the proposed amendment shall not adversely affect any ratings of Moody's or S&P then in effect with respect to the Certificates, no notice to or consent of the Registered Owners shall be required, but rather notice to and consent of the Certificate Insurer shall be deemed to constitute consent of the Registered Owners. However, nothing in the Declaration of Trust permits:

(a) Without the consent of the Registered Owner of each Certificate so affected, an extension of the maturity of the principal or the interest evidenced by any Certificate, a reduction in the principal amount evidenced by any Certificate or the rate of interest or premium represented thereby, or any change in the redemption provisions, or

(b) Without the consent of the Registered Owners of all Certificates then Outstanding, the creation of a privilege or priority of any Certificate or Certificates over any other Certificate or Certificates, or a reduction in the aggregate principal amount represented by the Certificates required for consent to a Declaration Amendment.

Where the consent of the respective Registered Owners is required, procedures are established in the Declaration of Trust for notice to the Registered Owners and for the execution and filing of the requisite consents. Any consent is binding upon the Registered Owners of the Certificates giving such consent and upon any subsequent Registered Owners of the Certificates unless such consent is revoked in writing prior to the execution by the Trustee of the Declaration Amendment.

Payments Due on non Business Days

If any Interest Payment Date, date of maturity of the principal of any Certificates, or date fixed for redemption of any Certificates is a Saturday, Sunday or a day on which (i) the Trustee is required, or authorized or not prohibited, by law (including without limitation, executive orders) to close and is closed, then payment of interest, principal and any redemption premium need not be made by the Trustee or any Paying Agent on that date, but that payment may be made on the next succeeding business day on which the Trustee and the Paying Agent are open for business with the same force and effect as if that payment were made on the Interest Payment Date, date of maturity or date fixed for redemption, and no interest shall accrue for the period after that date, or (ii) a Paying Agent is required, or authorized or not prohibited, by law (including without limitation, executive orders) to close and is closed, then payment of interest, principal and any redemption premium need not be made by that Paying Agent on that date, but that payment may be made on the next succeeding business day on which that Paying Agent is open for business with the same force and effect as if that payment were made on the Interest Payment Date, date of maturity or date fixed for redemption and no interest shall accrue for the period after that date.

Rights of Certificate Insurer

The Certificate Insurer shall be deemed to be an Owner of a sufficient percentage of the Outstanding Certificates (except for purposes of Declaration Amendments requiring the consent of all Certificates) to exercise any voting right or privilege or to give any consent or direction or to take any other action that the Owners of the Certificates are entitled to take pursuant to the Declaration of Trust pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee, provided that the Certificate Insurer is not in default on its payment obligations under the Certificate Insurance Policy.

Any provision of the Declaration of Trust to the contrary notwithstanding, if under any provision any action is to be taken only with the consent or approval of the Certificate Insurer and if at the time such consent or approval would otherwise be called for the Certificate Insurer is in default of its payment obligation pursuant to the terms of the Certificate Insurance Policy, then the consent or approval of the Certificate Insurer shall not be required.

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APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

[Closing Date]

To: Department of Administration
State of Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the execution and delivery by U.S. Bank National Association (the "Trustee") of $300,000,000* aggregate principal amount of Certificates of Participation, Series 2010B (the "Series 2010B Certificates"), dated the date hereof, pursuant to a Declaration of Irrevocable Trust, dated as of January 1, 2010 (the "Original Declaration of Trust"), as supplemented by a First Supplement to Declaration of Irrevocable Trust, dated as of June 1, 2010 (the "Declaration Supplement" and, together with the Original Declaration of Trust and as further supplemented in the future, the "Declaration of Trust") executed by the Trustee. Each of the Series 2010B Certificates, and together with the each of the Series 2010A Certificates (as defined in the Declaration of Trust), represent an undivided and proportionate interest in the obligations of the State of Arizona, acting by and through the Director of the Department of Administration (the "State"), under a Lease-Purchase Agreement, dated as of January 1, 2010 (the "Original Lease"), as amended by a First Amendment to Lease-Purchase Agreement, dated as of June 1, 2010 (the "Lease Amendment" and, together with Original Lease as amended and as subsequently amended, the "Lease"), between U.S. Bank National Association, as Lessor, and the State, under which the State has agreed to lease certain property from the Lessor. We have also examined an executed Series 2010B Certificate of the first maturity.

Based upon this examination, we are of the opinion that, under existing law:

1. The Series 2010B Certificates, the Declaration of Trust and the Lease are valid, legal, binding and enforceable in accordance with their respective terms, subject to bankruptcy laws and other laws affecting creditors' rights, and to the exercise of judicial discretion. The Series 2010B Certificates and the payments of the principal on and interest represented thereby are payable solely from the Lease Payments (as defined in the Lease). The Lease Payments are payable exclusively from moneys appropriated by the legislature, are not secured by an obligation or pledge of any moneys raised by taxation, and do not represent or constitute a general obligation or a pledge of the full faith and credit of the State of Arizona. If the legislature fails to appropriate moneys or the Department of Administration fails to allocate such moneys for any Lease Payment, the Lease terminates at the end of the current term and the State is relieved of any subsequent obligation under the Lease.

2. The portion of each Lease Payment made by the State under the Lease and denominated as and comprising interest pursuant to the Lease, and received by the owners of the Series 2010B Certificates (the "Interest Portion") is excludable from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Interest Portion is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Series 2010B Certificates. We also express no opinion as to the treatment for federal income tax purpose or Arizona state income tax purposes of amounts paid to the owners of the Series 2010B Certificates in the event of termination of the Lease as the result of moneys not being appropriated or allocated for Lease Payments.

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* Preliminary, subject to change.

In giving the foregoing opinion with respect to the treatment of the Interest Portion under the tax laws, we have assumed and relied upon compliance with the State's covenants and the accuracy, which we have not independently verified, of the State's representations and certifications, contained in the Transcript. The accuracy of those representations and certifications, and the State's compliance with those covenants, may be necessary for the Interest Portion to be and to remain excludable from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to execution and delivery of the Series 2010B Certificates could cause the Interest Portion to be included in gross income for federal income tax purposes retroactively to the date of execution and delivery of the Series 2010B Certificates.

Under the Code, the Interest Portion is excluded from the calculation of a corporation's adjusted current earnings for purposes of the corporate alternative minimum tax, but the Interest Portion may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

We express no opinion as to the Statement of Insurance appearing on any Series 2010B Certificates referring to the insurance policy issued by Assured Guaranty Municipal Corp. or as to the insurance referred to in that statement.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

$300,000,000[*]
STATE OF ARIZONA
DEPARTMENT OF ADMINISTRATION
CERTIFICATES OF PARTICIPATION, SERIES 2010B

CONTINUING DISCLOSURE UNDERTAKING
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (b)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by the State of Arizona, acting by and through the Director of the Department of Administration (the "State"), in connection with the execution and sale of the $300,000,000* aggregate principal amount of Certificates of Participation, Series 2010B (the "Series 2010B Certificates").

In connection with the Series 2010B Certificates, the State covenants and agrees as follows:

1. Purpose of this Undertaking. This Undertaking is executed and delivered by the State as of the date set forth below, for the benefit of the beneficial owners of the Series 2010B Certificates and in order to assist the Underwriters in complying with the requirements of the Rule (as defined below).

2. Definitions. The terms set forth below have the following meanings in this Undertaking, unless the context clearly otherwise requires.

"Annual Information" means the financial information and operating data set forth in Exhibit I.

"Annual Information Disclosure" means the dissemination of disclosure concerning Annual Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

"Audited Financial Statements" means the general purpose audited financial statements of the State of Arizona for each fiscal year, commencing with the fiscal year ending June 30, 2009, prepared pursuant to the standards and as described in Exhibit I.

"Commission" means the Securities and Exchange Commission.

"Dissemination Agent" means any agent designated as such in writing by the State and which has filed with the State a written acceptance of such designation, and such agent's successors and assigns.

"EMMA" means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at http://emma.msrb.org.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

[*] Preliminary, subject to change.

"Lease" means the Lease-Purchase Agreement, dated as of January 1, 2010, as amended by a First Amendment to Lease-Purchase Agreement, dated as of June 1, 2010, between U.S. Bank National Association, as lessor, and the State, as lessee.

"Material Event" means the occurrence of any of the Events with respect to the Series 2010B Certificates set forth in Exhibit II that is material, as materiality is interpreted under the Exchange Act.

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

"Series 2010B Certificates" means the $300,000,000* Certificates of Participation, Series 2010B.

"State" means the State of Arizona.

"Undertaking" means the obligations of the State pursuant to Sections 4, 5, and 6 hereof.

"Underwriters" means all of the brokers, dealers or municipal securities dealers acting as an underwriter in the primary offering of the Series 2010B Certificates.

3. CUSIP Number/Official Statement. The CUSIP Number of the final maturity of the Series 2010B Certificates is ________________. The Official Statement relating to the Series 2010B Certificates is dated June____, 2010 (the "Official Statement").

4. Annual Information Disclosure. Subject to Section 8 of this Undertaking, the State shall disseminate its Annual Information and its Audited Financial Statement, if any (in the form and by the dates set forth in Exhibit I), to the MSRB through EMMA, in a format prescribed by the MSRB. The State is required to deliver such information in such manner and by such time so that such entities receive the information on or before the date specified.

If any part of the Annual Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the State will disseminate a statement to such effect as part of its Annual Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. Material Events Disclosure. Subject to Section 8 of this Undertaking, the State hereby covenants that it will disseminate in a timely manner notice of the occurrence of a Material Event to the MSRB through EMMA, in a format prescribed by the MSRB.

6. Consequences of Failure of the State to Provide Information. The State shall give notice in a timely manner to the MSRB of any failure to provide Annual Information Disclosure when the same is due hereunder.

In the event of a failure of the State to comply with any provision of this Undertaking, the beneficial owner

* Preliminary, subject to change.

of any of the Series 2010B Certificates may seek mandamus or specific performance by court order to cause the State to comply with its obligations under this Undertaking. A default under this Undertaking shall not be an Event of Default on the Series 2010B Certificates. The sole remedy under this Undertaking in the event of any failure of the State to comply with this Undertaking shall be an action to compel performance.

7. Amendments; Waiver. Notwithstanding any provision of this Undertaking, the State by certified resolutions authorizing each amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted;

(b) This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the beneficial owners of the Series 2010B Certificates, as determined by an independent counsel or other entity unaffiliated with the State.

8. Non-Appropriation. The performance by the State of its obligations in this Undertaking shall be subject to the annual appropriation of any funds that may be necessary to permit such performance. In the event of a failure by the State to comply with its covenants under this Undertaking due to a failure to appropriate the necessary funds, the State covenants to provide prompt notice of such fact to the MSRB.

9. Termination of Undertaking. The Undertaking of the State will terminate pursuant hereto at such time as the State no longer has liability for any obligation relating to repayment of the Series 2010B Certificates or the Rule no longer applies to the Series 2010B Certificates. The State shall give notice in a timely manner if this Section is applicable to the MSRB.

10. Dissemination Agent. The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

11. Additional Information. Nothing in this Undertaking shall be deemed to prevent the State from disseminating any other information using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information Disclosure or notice of occurrence of a Material Event, in addition to that which is required by this Undertaking. If the State chooses to include any information from any document or notice of occurrence of Material Event in addition to that which is specifically required by this Undertaking, the State shall have no obligation under this Undertaking to update such information or include it in any future disclosure or notice of occurrence of a Material Event.

12. Beneficiaries. This Undertaking has been executed in order to assist the Underwriters in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the State, the Dissemination Agent, if any, and the beneficial owners of the Series 2010B Certificates, and shall create no rights in any other person or entity.

13. Recordkeeping. The State shall maintain records of all Annual Information Disclosure and notices of occurrence of Material Events including the content of such disclosure or notices, the names of the entities with whom such disclosure or notices were filed and the date of filing such disclosure or notices.

14. Assignment. The State shall not transfer its obligations under the Lease unless the transferee agrees to assume all obligation of the State under this Undertaking or to execute an Undertaking under the Rule.

15. Governing Law. This Undertaking shall be governed by the laws of the State.

Dated: [Closing Date]

STATE OF ARIZONA
DEPARTMENT OF ADMINISTRATION

By: ____________________________________
David Raber, Interim Director

(Signature page of Continuing Disclosure Undertaking)

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND AUDITED FINANCIAL STATEMENTS

"Annual Financial Information" means the information and operating data of the type contained in APPENDIX A of the Official Statement in the table captioned **"State of Arizona – Summary of State Revenues and Expenditures – State General Fund – Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Accrual Basis."**

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to the MSRB, in a format prescribed by the MSRB. If the information included by reference is contained in an Official Statement, the Official Statement must be available from the MSRB. The State shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided to the MSRB no later than February 1 in each year commencing February 1, 2011. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP, as applied to governmental units as modified by State law. Audited Financial Statements will be provided to the MSRB within 30 days after availability to the State.

If any change is made to the Annual Financial Information as permitted by Section 4 of the Undertaking, the State will disseminate a notice of such change as required by Section 4, including changes in fiscal year or GAAP.

EXHIBIT II

EVENTS FOR WHICH NOTICE OF OCCURRENCE OF MATERIAL EVENTS IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the interest represented by the Series 2010B Certificates
7. Modifications to the rights of holders of the Series 2010B Certificates
8. Series 2010B Certificate calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the Series 2010B Certificates
11. Rating changes

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

THE INFORMATION PROVIDED UNDER THIS SUBHEADING "BOOK-ENTRY-ONLY SYSTEM" HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE STATE, SPECIAL COUNSEL, OR THE FINANCIAL ADVISOR AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the Series 2010B Certificates. The Series 2010B Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010B Certificate will be issued for each maturity of the Series 2010B Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2010B Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010B Certificates on DTC's records. The ownership interest of each actual purchaser of each Series 2010B Certificate ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010B Certificates are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010B Certificates, except in the event that use of the book-entry system for the Series 2010B Certificates is discontinued.

To facilitate subsequent transfers, all Series 2010B Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010B Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010B Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010B Certificates are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2010B Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010B Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Series 2010B Certificate documents. For example, Beneficial Owners of Series 2010B Certificates may wish to ascertain that the nominee holding the Series 2010B Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2010B Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2010B Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2010B Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Series 2010B Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010B Certificates at any time by giving reasonable notice to the State or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2010B Certificate are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2010B Certificates will be printed and delivered to DTC.

THE STATE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2010B CERTIFICATES UNDER THE BOND RESOLUTION; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2010B CERTIFICATES; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2010B CERTIFICATES; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2010B CERTIFICATES; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered owner of the Series 2010B Certificates, as nominee for DTC, references herein to "Owner" or registered owners of the Series 2010B Certificates (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2010B Certificates.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the State or the Trustee to DTC only.

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By ________________________________
Authorized Officer

(212) 826-0100

APPENDIX H

SCHEDULE OF ADJUSTED REDEMPTION VALUE CALCULATED TO MANDATORY REDEMPTION DATE

[The Adjusted Redemption Value as of each Interest Payment Date is set forth below. If such date of calculation for a mandatory redemption is not an Interest Payment Date, an amount will be calculated by straight line interpolation of the Adjusted Redemption Value as of the immediately preceding Interest Payment Date and the Adjusted Redemption Value as of the next Interest Payment Date.]